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Supreme Court, U.S.
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IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
Petitioner,

v.

CARTIER, INC.,
CHARLES OF THE RITZ GROUP, LTD., AND
COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS,
Respondents.

PETITION OF K MART CORPORATION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

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September 26, 1986

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QUESTIONS PRESENTED

Since 1936, the Customs Service has interpreted and applied Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act to allow the "parallel importation" * of genuine trademarked merchandise manufactured abroad in two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner. As the court below acknowledged, the validity of this regulation has "engendered considerable conflict among the courts." 790 F.2d at 904 (p. 4a).

The Courts of Appeals for the Federal and Second Circuits have both recently upheld the Customs Service regulation, 19 C.F.R. § 133.21(c), holding either that it is a proper interpretation of Section 526 or that it is a proper exercise of agency enforcement discretion.

The Court of Appeals for the District of Columbia Circuit, in direct conflict with these two decisions, held that the Customs Service regulation was inconsistent with Section 526 and therefore void; in the view of the District of Columbia Circuit, Section 526 requires the Customs Service to exclude all parallel imports, contrary to some five decades of agency practice.**

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* "Parallel imports" or "grey market" goods are genuine foreign goods which bear an internationally recognized trademark. But rather than being imported by the American subsidiary of a foreign manufacturer and sold at artificially inflated prices, parallel imports are independently imported and sold at competitive prices to the American consumer. Parallel imports are economically feasible because foreign manufacturers charge a lower price abroad than in the United States.

** There is also a conflict among the circuits on the issue of jurisdiction, *i.e.*, whether the Court of International Trade and the Federal Circuit have exclusive jurisdiction over the legal issues raised below. K mart takes no position on the jurisdictional question but understands that it will be raised by other parties who intend to file petitions for certiorari.

The questions presented for review are:

1. Where a statutory provision is ambiguous, and the agency interpretation is reasonable, may a court substitute its judgment for that of the agency. The Court in *Young v. Community Nutrition Institute*, 106 S. Ct. 2360, 2365-2366 (1986), held that it could not.

2. Where a statute has been enacted for a particular stated purpose, may a court ignore that purpose when construing the literal words of the statute. The Court in *United States v. American Trucking Ass'n*, 310 U.S. 534, 543 (1940), held that it could not.

3. Where Congress has been informed of and acknowledged an agency's statutory interpretation but never altered that interpretation, although it has amended the statute in other respects, may a court nonetheless conclude that the agency interpretation is wrong. The Court in *United States v. Rutherford*, 442 U.S. 544, 553-554 (1979), held that it could not.

4. Should a court *order* an agency to enforce a statute contrary to the intent of Congress and in a manner inimical to the public interest.

There is a square and irreconcilable conflict among the circuits on an important question of federal law, and, as a result, a federal agency cannot uniformly administer an important federal statute. Certiorari should therefore be granted. *McElroy v. United States*, 455 U.S. 642, 643 (1982).

PARTIES TO THE PROCEEDINGS BELOW

Plaintiffs-Appellants

Cartier, Inc.

Charles of the Ritz Group, Ltd.

***Coalition to Preserve the Integrity of American Trademarks

Defendants-Appellees

United States of America

James A. Baker III, Secretary of the Treasury (formerly Donald T. Regan)

William Von Raab, Commissioner of Customs

Intervenors-Appellees

K mart Corporation

47th Street Photo, Inc.

Amici Curiae (aligned with Appellees)

American Free Trade Association

Progress Trading Company

Four American Consumers: Andy Shafer, Herbert Silver, Harry Herslos, and Charles L. Linehan, Jr.

Rule 28.1 Listing

K mart Corporation states that it is a publicly held corporation with no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1.

*** The Coalition to Preserve the Integrity of American Trademarks ("COPIAT") is an ad hoc trade association comprised largely of the domestic sales and marketing affiliates of foreign manufacturers of trademarked goods. Both Cartier, Inc. and Charles of the Ritz Group, Ltd. are members of COPIAT.

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CARTIER, INC.,
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COALITION TO PRESERVE THE INTEGRITY
OF AMERICAN TRADEMARKS,
Respondents.

PETITION OF K MART CORPORATION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

Petitioner K mart Corporation ("K mart") respectfully prays that a writ of certiorari issue to review the May 6, 1986 judgment and opinion of the United States Court of Appeals for the District of Columbia Circuit.

OPINIONS BELOW

The opinion of the Court of Appeals for the District of Columbia Circuit (Circuit Judges Mikva, Bork and Silberman) is reported at 790 F.2d 903 (p. 1a).

The memorandum opinion of the United States District Court for the District of Columbia (District Judge Norma Holloway Johnson) is reported at 598 F. Supp. 844 (p. 38a).

JURISDICTION

Invoking jurisdiction under 28 U.S.C. §§ 1331, 1338 and 1361, 15 U.S.C. § 1121, and 28 U.S.C. §§ 2201 and 2202, respondents Cartier, Inc., Charles of the Ritz Group, Ltd. and their trade group, the Coalition to Preserve the Integrity of American Trademarks (collectively "COPIAT"), instituted this action for declaratory and injunctive relief in the United States District Court for the District of Columbia on February 23, 1984. Seeking a ruling that the 1972 Customs Service regulation on parallel imports was invalid, COPIAT named the United States, the Secretary of the Treasury and the Commissioner of Customs as defendants; K mart and 47th Street Photo intervened as defendants. On December 5, 1984, the court granted defendants' motions to dismiss and for summary judgment, entering judgment for defendants on the merits (p. 53a).

On appeal, the District of Columbia Circuit on May 6, 1986 entered an opinion and order reversing the district court and directing the entry of declaratory judgment in favor of COPIAT (p. 1a).

K mart's timely-filed petition for rehearing and suggestion for rehearing en banc were denied on July 18, 1986 (p. 35a; p. 36a). By orders dated May 6, 1986 and August 6, 1986, the court of appeals stayed issuance of its mandate until September 30, 1986 in order to give the parties a meaningful opportunity to petition for a writ of certiorari (p. 34a; p. 37a).

The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATUTORY AND REGULATORY PROVISIONS AT ISSUE

Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, provides, in pertinent part:

> (a) Importation Prohibited.—Except as provided in subsection (d) of this section, it shall be unlaw-

> ful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.
>
> (b) Seizure and Forfeiture.—Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

Section 42 of the Lanham Act, 15 U.S.C. § 1124, provides in pertinent part:

> [N]o article of imported merchandise which shall copy or simulate the name of the [*sic*] any domestic manufacture [*sic*] manufacturer, or trader, or of any manufacturer or trader located in any foreign country . . . shall be admitted to entry at any customs house of the United States . . . .

The Customs Service regulation, 19 C.F.R. § 133.21 (1986), provides in pertinent part:

> (b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.
>
> (c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity; [or]

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d)); [or]

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner . . . .

STATEMENT OF THE CASE

At issue is Customs Service regulation 19 C.F.R. § 133.21(c), which interprets and applies Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act. A United States trademark owner can generally prevent the "unauthorized" or "independent" importation of genuine trademarked merchandise manufactured abroad, *i.e.*, "parallel imports" or "grey market goods". The Customs Service, however, does not recognize or enforce the domestic trademark owner's right to such exclusion under two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner.

The court below held that this regulation is inconsistent with Section 526 and therefore void; in the view of the court of appeals, Section 526 requires the Customs Service to exclude all parallel imports, contrary to some five decades of agency practice.

The Customs Service regulation rests on sound historical and public policy footings. Section 526 was enacted in 1922 for the express purpose of protecting independent American companies which had purchased domestic trademark rights from foreign companies, specifically to negate the decision in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921). There was not, at the time,

any significant quantity of parallel imports of the type COPIAT seeks to exclude in this case, and there is nothing to indicate that Congress ever intended Section 526 to protect foreign manufacturers from price competition in their trademarked goods.

This case is of exceptional importance because the decision below reverses a long-standing agency regulation and practice by which the Customs Service has refused to enforce the international market division agreements and price maintenance schemes of COPIAT members and the foreign companies which own and control them. The decision below is the first ever to hold that Section 526 requires the exclusion of all parallel imports.[1] Should the decision below prevail, the American consumer will annually pay hundreds of millions of dollars in fixed retail price overcharges to foreign manufacturers.

Over the past fifty years, a substantial domestic industry has relied on the Customs Service regulation.[2]

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[1] For example parallel imports have survived trademark law and/or tariff law challenges in the following cases: *United States v. Guerlain*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated & remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), *vacating & remanding* 548 F. Supp. 1063 (E.D.N.Y. 1982); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F. Supp. 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.*, 599 F. Supp. 1380 (E.D.N.Y. 1984); *Parfums Stern, Inc. v. United States*, 575 F. Supp. 1476 (S.D. Fla. 1983); *United States v. Eighty-Nine Bottles of "Eau de Joy"*, 797 F.2d 767 (9th Cir. 1986). Parallel imports have also recently survived a challenge under the Uniform Commercial Code in *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986).

[2] The court of appeals disregarded the precept that courts should not precipitously reverse an agency regulation on which private parties have substantially relied. *Zenith Radio Corp. v. United States*, 437 U.S. 443, 457-458 (1978); *Independent Bankers Ass'n v. Marine Midland Bank, N.A.*, 757 F.2d 453, 461-462 (2d Cir. 1985).

Parallel importers sell to discount retailers, such as K mart, which cannot obtain brand name merchandise directly from the foreign manufacturer or its wholly owned and controlled domestic distributor—the typical COPIAT member. Almost every consumer has purchased a parallel import and will therefore be affected adversely by the decision below. If you have saved money by purchasing a name-brand imported camera, watch, perfume or electronic item from a discount department store, catalog showroom or mail order house, you probably purchased a parallel import. Annual retail sales of parallel imports are estimated at $6.0 billion.[3]

COPIAT is an ad hoc trade association composed of the domestic sales and marketing affiliates of foreign companies which manufacture trademarked goods abroad. Respondent Cartier, Inc., for example, is wholly owned by a Dutch corporation which manufactures CARTIER products overseas. By assignment, Cartier, Inc. and other COPIAT members claim American rights to the trademarks owned by their foreign parent companies. These foreign companies promote their trademarks worldwide and sell identical trademarked products globally,[4] but attempt to charge much higher prices in the United States than elsewhere in the world. Hence, there is an economic incentive for the independent or "parallel" importation of products for sale to American consumers at a substantial price discount.

K mart operates more than 2,000 discount department stores in the United States. K mart purchases parallel imports because of their lower price and because many

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[3] "The Assault on the Right to Buy Cheap Imports," *Fortune*, Jan. 7, 1985 at 89.

[4] Recently the Court of Appeals for the Federal Circuit observed that because of this practice, the American consumer cannot necessarily distinguish between a foreign manufacturer and its affiliated domestic distributor with a similar name. *In re Wella A.G.*, 787 F.2d 1549, 1552-1553 (Fed. Cir. 1986).

trademark owners refuse to sell directly to price-competitive retailers including K mart. K mart sells parallel imports to the consumer at up to 40% less than the inflated retail prices which COPIAT members and other foreign manufacturers seek to maintain in the United States.

REASONS FOR GRANTING THE WRIT

The court of appeals distorted legislative history and ignored agency practice, contrary to rules of statutory construction expressed most recently by the Court in *Young v. Community Nutrition Institute*, 106 S. Ct. 2360 (1986): Where a statutory provision is ambiguous and the agency interpretation is reasonable, the agency must be sustained. 106 S. Ct. at 2365-2366.

Moreover, the decision below is in direct conflict with decisions of the Second Circuit and the Federal Circuit (and the district courts which they affirmed) that the Customs Service regulation properly interprets Section 526 or that it is a proper exercise of agency enforcement discretion:[5] *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *aff'g* 593 F. Supp. 420 (Ct. Int'l Trade 1984), *cert. denied*, 106 S. Ct. 791 (1986); and *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *aff'g* 627 F. Supp. 911 (E.D.N.Y. 1985). Indeed, the court below is the first ever to hold that the Customs Service regulation is invalid. *See Coalition to Preserve the Integrity of American Trademarks v. United States*, 598 F. Supp. 844 (D.D.C. 1984) (p. 38a) (the district court decision in this case); and the cases cited in footnote 1 above. The Customs Service, when faced with these directly conflicting appellate decisions regarding its implementation of Section 526, cannot administer the

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[5] Although K mart takes no position, there is also a direct conflict between the Federal Circuit and the District of Columbia and Second Circuits on the question of jurisdiction. *Compare* 790 F.2d at 905-907 (pp. 4a-9a) and 792 F.2d at 317-319 *with* 761 F.2d at 1557-1560.

statute consistently and uniformly across the United States.

The court of appeals was persuaded to disregard the question of whether or not the Customs Service regulation was reasonable, and instead to substitute its judgment for that of the agency. Remarkably, the court of appeals held that neither the agency nor the court could consider regulatory "reasonableness," but had to enforce the statutory language "literally" even if led to an absurd result:

> The intervenors argue with great vigor that Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. That may well be so. They further contend that other nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their countries in this fashion, and that Section 526 in today's international market constitutes a sort of economic unilateral disarmament. That may also be so. Moreover, it is certainly true that economic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago. All of these arguments are properly addressed to Congress; it is not open to the Customs Service, still less the Judiciary, to modify the law to take into account these considerations.

790 F.2d at 918 (pp. 30a-31a). This is hardly the "sensible" reading of statutory language which the Court expects. *Lawrence County v. Lead-Deadwood School District*, 105 S.Ct. 695, 699 (1985).

The decision below is a bundle of contradictions: the court held that statutory language which has been inter-

preted in one way by courts, Congress, the President and agencies for over fifty years is so clear on its face that it now "must" be interpreted in a totally different way; the court below felt that original congressional intent was at best ambiguous and unclear, yet refused to defer to relatively contemporaneous agency construction of the statute; the court below mischaracterized repeated Congressional consideration of the agency regulation as "silence"; the court below opined that an agency has been illegally inconsistent if its regulations have changed slightly in form (although not in substance) over a fifty-year period; and the court below posited that a statute must be enforced and interpreted in isolation and without regard to other statutory (and judicial) expressions of public policy.

This distortion of the rules of statutory construction cannot be defended. Particularly where statutory language is ambiguous and Congress did not address the precise issue at hand, a reasonable and longstanding agency interpretation of the statute—which is also consistent with expressions of legislative intent—is entitled to judicial deference.

I. The Customs Service Regulation Is A Reasonable Interpretation of the Tariff Act of 1930

In this case, the court of appeals acknowledged that in passing Section 526, Congress was not concerned with parallel imports since the situation did not exist in the 1920's. 790 F.2d at 918 (p. 31a). Likewise, the very fact that the District of Columbia Circuit now reads the statute differently than the Customs Service has for over 50 years and differently than the Courts of Appeals for the Federal and Second Circuits (and at least three district courts) indicates that the statutory language is ambiguous or not clear on its face.[8]

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[8] Compare the turgid prose of Section 526 with the straightforward statutory language held "unclear" in *Lawrence County v.*

Given this situation, a court must merely be satisfied that an agency has reached a "permissible construction of the statute," *Young v. Community Nutrition Institute*, 106 S.Ct. 2360, 2364 (1986), *quoting Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-844 (1984), one that "is reasonably defensible." *Sure-Tan, Inc. v. NLRB*, 467 U.S. 883, 104 S.Ct. 2803, 2809 (1984). The court of appeals failed to recognize that an agency interpretation is entitled to considerable deference and need not be "the only one it permissibly could have adopted . . . or even the reading the court would have reached if the question initially had arisen in a judicial proceeding." *Chevron*, 467 U.S. at 842 n.11. *Accord, FEC v. Democratic Senatorial Campaign Committee*, 454 U.S. 27, 39 (1982).

The recent decision in *Young v. Community Nutrition Service* is particularly persuasive since it also involved statutory language which seemed to mandate agency action, but the Court reversed the decision of the District of Columbia Circuit and approved the agency decision not to regulate in a particular area. 106 S.Ct. at 2364.

The Customs Service interpretation of Section 526 is reasonable because it is consistent with trademark law, it provides equivalent treatment for foreign and domestic trademark owners, and it furthers the public interest.

Moreover, it would be difficult to identify many other regulations which have been substantially unchanged for such a long period of time—another factor weighing in favor of the Customs Service interpretation of Section 526. Although the wording of the regulation has changed somewhat over the years,[7] there is no evidence to sug-

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Lead-Deadwood School District, 105 S.Ct. 695, 698 n.4 (1985): "A [local government] unit may use the [federal] payment for any governmental purpose."

[7] In *Olympus*, the Second Circuit stated: "We disagree with the Federal Circuit's conclusion [in *Vivitar*] that the regulations

gest that the Customs Service ever *enforced* Section 526 in any way other than the way in which the regulation is now phrased. This was stated expressly in the 1977 House Report quoted in Section III below (covering the period 1957 through 1977) and was the conclusion of John F. Atwood, a customs law specialist often cited by COPIAT:

> Actually, [Customs] had *always* denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information.

J. Atwood, "Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs," 59 Trade-Mark Rep. 301, 307 (1969), emphasis supplied.

Whether or not the Customs Service regulations of the 1920's and 1930's are identical to those of the 1970's and 1980's, the present regulation has been in place since 1972.[8] That a 14-year period of regulatory consistency

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have not been sufficiently consistent to warrant a finding that long-standing administrative interpretation confirms appellee's reading of the statute." 792 F.2d at 319. The district courts in *Vivitar*, 593 F. Supp. at 434; *COPIAT*, 598 F. Supp. at 852 (p. 51a); and *Olympus*, 627 F. Supp. at 922, likewise concluded that the Customs Service had been consistent in its regulation of parallel imports. *Compare* 1 Fed. Reg. 1,725 (1936) (T.D. 48,537) *with* 19 C.F.R. § 133.21(c) (1986). Moreover, in the 1920's foreign manufacturers were not promoting their trademarks world-wide and were not establishing wholly-owned distributorships in the United States the way they have been in the 1970's and 1980's.

[8] 35 Fed. Reg. 19,269 (Dec. 19, 1970); 37 Fed. Reg. 20,677 (Oct. 3, 1972). COPIAT apparently concedes that the rulemaking which led to the present regulation complied with the Administrative Procedure Act, 5 U.S.C. § 701 *et seq.* In fact, COPIAT did not even participate in the rulemaking proceeding, 598 F. Supp. at 849

is itself sufficient to accord the agency practice considerable respect was affirmed most recently in *Lawrence County v. Lead-Deadwood School District*, 105 S.Ct. 695 (1985), where the Court deferred to the eight-year old position of the Interior Department:

> The interpretation of an agency charged with the administration of a statute is entitled to substantial deference, *Blum v. Bacon*, 457 U.S. 132, 141 (1982), if it is a sensible reading of the statutory language, which it surely is in this case, and if it is not inconsistent with the legislative history . . . .

105 S. Ct. at 699. *Accord, Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 381 (1969) (agency construction "should be followed unless there are compelling indications that it is wrong"); *Independent Bankers Ass'n v. Marine Midland Bank, N.A.*, 757 F.2d 453, 458 (2d Cir. 1985) (deferring to three-year old agency practice).

Given changing American attitudes toward foreign trade (and the antitrust laws) it is not surprising that since 1922 the wording of the Customs Service regulation has changed a bit or that the justification for the regulation has varied somewhat; it would be a rare policy, whether executive, judicial, legislative or administrative which has remained completely static and unchanged for over five decades. The Customs Service reading of the statute is, above all, a "sensible" one which is entitled to deference.

There was yet another reason for the court below to defer to the agency: COPIAT and the other parties to this case are now participating in agency review of the regulation, a process which may result in changes moot-

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(p. 45a), and does not offer any explanation for its failure to challenge the 1972 regulation for over twelve years.

ing the legal issues which COPIAT raised.[9] Since the Customs Service regulation is undergoing active review at the highest executive and administrative levels, it was particularly inappropriate for the court below to superimpose its judgment.

II. The Customs Service Regulation Is Consistent With Congressional Intent

The legislative history of Section 526 is replete with uncontradicted references to the reason for its passage, namely, to negate the holding of the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921) (hereafter "*Katzel*").[10]

The facts in *Katzel* were simple: an American company had purchased from a French manufacturer all American rights to the JAVA trademark for face powder. Over a period of years, the American company had come to be identified by the American public as the source of JAVA fact powder, thanks to extensive advertising, to repackaging of French bulk powders in new containers and to careful selection of colors uniquely suitable to the American market. 260 U.S. at 691.

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[9] On May 21, 1984, the Treasury Department, on behalf of the Working Group on Intellectual Property of the Cabinet Council on Commerce and Trade, solicited from the public economic data on parallel imports. 49 Fed. Reg. 21,453 (May 21, 1984); 49 Fed. Reg. 29,509 (July 20, 1984). The stated purpose of this solicitation, which focused on the impact of the Customs Service regulation, was to enable the Cabinet Council to formulate regulatory recommendations. After reviewing data submitted in 1984, the President's Economic Policy Council has recently solicited additional information to perform a cost-benefit analysis of specific regulatory options on parallel imports. 51 Fed. Reg. 22,005 (June 17, 1986); 51 Fed. Reg. 30,024 (Aug. 21, 1986). The President characterized this as an effort to "formulat[e] a cohesive policy in this area." 50 Fed. Reg. 1,655 (Jan. 11, 1985).

[10] After Section 526 was enacted, the Supreme Court also reversed the Second Circuit. 260 U.S. 689 (1923).

When another retailer purchased JAVA face powder from the French manufacturer, imported it into the United States and sold it to American consumers, the American trademark owner sued. The Second Circuit held that the American trademark owner had no cause of action. Both Congress and the Supreme Court sensed a fraud and sought to remedy the inequity—Congress by passing Section 526 and the Supreme Court by reversing the Second Circuit.[11]

Justice Holmes, in a brief opinion, held that it would be unfair for the French manufacturer to have its goods marketed in the United States by anyone other than the American trademark owner. Such a "contrivance" "for the purpose of evading the effect of the transfer" of trademark rights "must fail". 260 U.S. at 691.

Congress in 1922 likewise wanted specifically to overrule *Katzel* and generally to protect the contractual property rights of Americans who, as in *Katzel*, had purchased a trademark from an independent foreign company.[12]

Senator Sutherland, a sponsor of the 1922 legislation which, when it was reenacted in 1930, became Section 526, succinctly expressed the legislative purpose:

> Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in

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[11] The present Customs Service regulation is consistent with the resolution of *Katzel*. Since the American trademark owner was not affiliated with the French manufacturer and the JAVA trademark had not been applied to the French goods with the authorization of the American trademark owner, JAVA face powder could be imported only by the American trademark owner under 19 C.F.R. § 133.21(c) (1986).

[12] Given the highly protectionist attitude which prevailed in the 1920's and 1930's, it would be ludicrous to suggest that Congress "intended" Section 526 to benefit foreign manufacturers in any way—especially not to insulate them from price competition and not to allow them to gouge the American consumer.

> favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

62 Cong. Rec. S. 11,603 (daily ed. Aug. 19, 1922).

The Conference Report also reflects the Congressional purpose to protect from foreign competition American companies which had acquired American rights to a foreign trademark and applied that trademark to goods which they made in America:

> A recent decision of the circuit court of appeals [*i.e.*, *Katzel*] holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark in order to protect the American manufacturer or producer.

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

Congressional intent was reexpressed in 1930 when the provision was reenacted as Section 526. Senator Reed stated his understanding of Section 526 during debate:

> Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.

72 Cong. Rec. S. 3,873 (daily ed. Sept. 23, 1929).[13]

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[13] Since articles manufactured abroad by the parent, subsidiary or licensee of an American trademark holder have been marked with its consent, they do not come within the ambit of Section 526 as it was understood and intended by Congress in 1930. Senator

The present Customs Service regulation on parallel imports is fully consistent with these expressions of Congressional intent: American producers and manufacturers are protected from "unauthorized" imports; American consumers are protected from counterfeit goods; and purchasers of American rights to foreign trademarks are protected from fraud. Moreover, the Congressional purpose has been achieved without unduly expanding trademark rights to the detriment of the American consumer or the public good.

On the other hand, it is the conceded intention of Cartier, Inc. and the other members of COPIAT to use the Customs Service to enforce territorial restrictions which are designed to make American consumers pay higher prices than consumers anywhere else in the world for foreign merchandise.[14]

Even if the legislative history of Section 526 is not a model of clarity, there can be no doubt that in the 1920's and 1930's, Congress did not intend to protect foreign manufacturers at the expense of American industry or the American consumer. Yet that is the conceded result of the decision below. 790 F.2d at 918 (pp. 30a-31a).

In short, the court of appeals has distorted the purpose of Section 526 and ignored the rule that the purpose of legislation, rather than its literal words, should be followed if the statutory language seems "plainly at variance with the policy of the legislation as a whole." *United States v. American Trucking Ass'n*, 310 U.S. 534, 543 (1940).

Reed's statement is identical in substance to 19 C.F.R. § 133.21 (c) (3) (1986).

[14] American manufacturers cannot enlist governmental agencies to enforce territorial restrictions or other arguably anticompetitive contractual arrangements. Interestingly, COPIAT's members largely represent foreign industries which have already destroyed their American competitors. Virtually all cameras, watches and consumer electronics, for example, are now manufactured overseas.

III. The Customs Service Regulation Has Been Ratified by Congress

The court below dismissed the contradiction between the public interest and its reading of Section 526 by admonishing those who have relied on the Customs Service regulation for over five decades that "these arguments are properly addressed to Congress." 790 F.2d at 918 (p. 31a). This suggestion ignores the fact that Congress has considered "these arguments" many times over the past fifty years; Congress has been apprised of the Customs Service interpretation of Section 526 and Congress has both approved it and chosen not to modify it. As the Second Circuit stated in *Olympus*, "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation." 792 F.2d at 320.

Under the doctrine of legislative ratification, where Congress has revisited a statute, is aware of the administrative interpretation, and does nothing to interfere with it, a court is to presume that the agency interpretation correctly reflects Congressional intent. In *United States v. Rutherford*, 442 U.S. 544 (1979), the Court stated:

> As this Court has often recognized, the construction of a statute by those charged with its administration is entitled to substantial deference. Such deference is particularly appropriate where, as here, an agency's interpretation involves issues of considerable public controversy, and Congress has not acted to correct any misperception of its statutory objectives.

442 U.S. at 553-554 (citations omitted). The Court continued in a footnote:

> [O]nce an agency's statutory construction has been "fully brought to the attention of the public and the Congress," and the latter has not sought to alter that interpretation although it has amended the statute in

> other respects, then presumably the legislative intent has been correctly discerned.

442 U.S. at 554 n.10. *Accord, Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 382 n.66 (1982); *Haig v. Agee*, 453 U.S. 280, 297-298 (1982). Similarly, when Congress has been specifically informed of an agency's interpretation of a statute and yet does not act to modify the interpretation when "enacting . . . related legislation," Congressional "acquiescence . . . and ratification" may be presumed. *Bob Jones University v. United States*, 461 U.S. 574, 599 (1983).

In the early 1940's, Congress was advised of and approved the 1936 Customs Service regulation (in the trademark context) when the Lanham Act was passed. Indeed, the United States Tariff Commission memorandum discussing the 1936 regulation was incorporated in the legislative history of the Lanham Act:

> In 1936 (T.D. 48537) the Treasury Department made important changes in the regulations . . . . The new regulations provided . . . that merchandise manufactured in a foreign country under a trademark is not to be deemed for the purpose of these regulations to "copy or simulate" such United States trade-mark if such foreign trade-mark and such United States trade-mark are owned by the same person.

Trademarks: Hearings Before a Subcommittee of the Senate Committee On Patents On H.R. 82, 78th Cong., 2d Sess. 86 (1944). In short, Congress expressly ratified the Customs Service regulation regarding parallel importation when it passed the Lanham Act in 1946.

In 1951, the Customs Service interpretation of Section 526 was again before Congress when the Customs Service responded to an inquiry from Senator Douglas by explaining in detail the Customs Service regulation and its application to parallel imports. Letter from Frank

Dow, Commissioner of Customs, to Senator Paul Douglas (March 23, 1951).

In 1954, the proposed Customs Simplification Act would have excepted American trademark holders with foreign affiliates from Section 526 protection. Congress was advised by the Treasury Department that the provision was meant "to confirm the present regulations which Customs [had] outstanding" under Section 526. Hearings before the House Committee on Ways and Means on H.R. 9476, Customs Simplification Act of 1954, 83d Cong., 2d Sess. 9 (1954).[15]

In connection with the Customs Procedural Reform and Simplification Act of 1978, Pub. L. No. 94-410, 92 Stat. 888, 903, the House Ways and Means Committee also specifically recognized the Customs Service practice:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977).[16]

If there were any lingering doubt about Congressional awareness of the Customs Service regulation on parallel

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[15] As the court below recognized, this portion of the bill was deleted during House hearings by unanimous consent and with the concurrence of the Treasury Department. *See* 790 F.2d at 915 (p. 25a). There is no indication that Congress disapproved of the Customs Service regulation; to the contrary, it was unnecessary for Congress to enact legislation when it agreed that the existing regulation was adequate.

[16] Neither the Senate Report nor the Conference Report referred to the Customs Service practice. Presumably, however, these reports would have reflected any disagreement with the House Report or with the Customs Service, if any such disagreement had existed.

imports, it is dispelled by the Senate Report on the Trademark Counterfeiting Act of 1984: [17]

> [The Act] does not include within its coverage so-called "gray-market" goods—i.e., authentic trademarked good that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 . . . to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. 133.21(c).

Senate Judiciary Committee Report on the Trademark Counterfeiting Act of 1984, S. Rep. No. 98-526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. New 3627, 3629.[18]

The Customs Service regulation has not been kept a secret from Congress and the public for over five decades. Congress has many times considered amending Section 526, either to codify parts of the Customs Service regulation or to repeal Section 526 altogether.[19] 790 F.2d at

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[17] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

[18] Likewise, when the President recently disapproved the International Trade Commission determination in *Certain Alkaline Batteries*, ITC Inv. No. 337-TA-168 (Nov. 5, 1984), he did so because it was "at odds with the longstanding regulatory interpretation [of Section 526 of the Tariff Act and Section 42 of the Lanham Act] by the Department of the Treasury." 50 Fed. Reg. 1,655 (Jan. 11, 1985). Thus, of the executive, legislative, judicial and administrative bodies which have considered the question, *only* the court below has failed to find the Customs Service regulation of parallel imports both consistent and of longstanding.

[19] As the court below recognized, when Congress disagreed with restrictions on the importation of trademarked merchandise for personal use, Congress overruled the Customs Service by legislating an exception. 19 U.S.C. § 1526(d) (1982). 790 F.2d at 916 (pp. 27a-28a). This reversed *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931).

914-916 (pp. 23a-28a). From this, *Rutherford* mandates judicial acceptance of the Customs Service reading of legislative intent.[20] For the court below to mischaracterize this history as legislative "silence," 790 F.2d at 914 (p. 23a), is a gross distortion of judicial review.

IV. An Agency Should Not Be Ordered to Violate Public Policy

As the court below acknowledged, neither Congress nor the Customs Service has ever regarded Section 526 in isolation; Section 526 has always been recognized as embodying tariff, trademark and antitrust policies. Thus, congressional debates on Section 526 often mix trademark and tariff considerations.[21] The Customs Service generally cites both Section 526 of the Tariff Act and Section 42 of the Lanham Act as statutory authority for its regulations.[22] And courts have historically permitted parallel imports based on both the Tariff Act and the Lanham Act.[23]

Antitrust concerns have arisen from a recognition that the monopoly inherent in a trademark should not be overextended to the point that it is inimical to public policy. The court below opined that the Customs Service lacked "authority to infuse antitrust concerns into Section 526." 790 F.2d at 917 (p. 29a). This position is at odds with rulings of this Court that an agency *must* take the antitrust law into account when assessing the public interest. *See Gulf States Utilities Co. v. FPC*, 411 U.S. 747, 761-

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[20] In *Rutherford*, the Court referred to one later floor debate and two later committee reports as demonstrating Congressional ratification of an FDA regulation. 442 U.S. at 552-553. Congressional acquiescence in the Customs Service regulation is substantiated by evidence of similar if not better quality.

[21] *See, e.g.*, H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

[22] *See, e.g.*, 1 Fed. Reg. 1,725 (1936) (T.D. 48,537); 19 C.F.R. § 11.14 (1946); 19 C.F.R. § 11.14 (1969); 19 C.F.R. § 133.21 (1986).

[23] *See* cases cited in footnote 1 above holding that parallel imports are legal under the Lanham Act.

762 (1973); *Denver & Rio Grande Western Railroad Co. v. United States*, 387 U.S. 485, 492-493 (1967). Moreover, antitrust considerations are inherent in evaluating the proper scope of the monopoly granted by a trademark; the trademark owner, after introducing trademarked articles into commerce, cannot restrict the subsequent use or resale nor fix the resale price. *United States v. Sealy, Inc.*, 388 U.S. 350, 356 (1967); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707, 721 (1944).

The court below has directed the Customs Service to enforce Section 526 "literally" in a way which the Department of Justice has recognized would be contrary to the antitrust laws:

> If applied literally, Section 526 arguably would prohibit imports of genuine goods identical to the goods sold under the U.S. trademark. Thus, for example, an American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.
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> * * *
>
> Since Section 526 contains no explicit language indicating that such a broad exemption to the antitrust laws is intended and since repeal of the antitrust laws by implication is not favored, an interpretation of Section 526 which prevents an unnecessary elimination of competition is not only permissible but required.

Letter from Walker B. Comegys, Acting Assistant Attorney General, Antitrust Division, Department of Justice, to Myles J. Ambrose, Commissioner of Customs (Apr. 19, 1971) 4-5.

This has also been recognized by courts which have refused the pleas of COPIAT members to exclude par-

allel imports under the tariff and trademark laws. As Judge Aronowitz said in *Parfums Stern, Inc. v. United States*, 575 F. Supp. 416, 421 (S.D. Fla. 1983), "the Court would be doing the public a disservice by preventing the dissemination of . . . equally good, yet less expensive . . . products" if it accepts the decision below.

CONCLUSION

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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September 26, 1986

APPENDIX

APPENDIX

UNITED STATES COURT OF APPEALS FOR THE DISTRICT OF COLUMBIA CIRCUIT

No. 84-5890

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
Appellants

v.

UNITED STATES OF AMERICA, *et al.*,
Appellees

Appeal from the United States District Court for the District of Columbia

(Civil Action No. 84-00390)

Argued January 22, 1986
Decided May 6, 1986

William H. Allen, with whom *Eugene A. Ludwig*, *Scott D. Gilbert*, *Daniel A. Rowley* and *Elizabeth V. Foote* were on the brief for appellants.

David M. Cohen, Director, Commercial Litigation Branch, Civil Division, Department of Justice, with whom *Richard K. Willard*, Acting Assistant Attorney General, Department of Justice was on the brief for appellee, United States of America.

Nathan Lewin, with whom *Jamie S. Gorelick* was on the brief for appellee, 47th Street Photo, Inc.

Robert E. Hebda, with whom *Robert W. Steele* and *James C. Tuttle* were on the brief for appellee, K-Mart Corporation.

Frank W. Gaines, Jr. and *Robert L. Hoegle* were on the brief for *amicus curiae*, Progress Trading Co., Inc., urging affirmance.

Bernard Fensterwald, III entered an appearance for *amicus curiae*, American Free Trade Association, urging affirmance.

Before MIKVA, BORK, and SILBERMAN, *Chief Judges*.

Opinion for the Court filed by *Circuit Judge* SILBERMAN.

SILBERMAN, *Circuit Judge*: This case concerns the validity of regulations issued by the U.S. Customs Service permitting the importation of so-called "grey-market goods" in certain instances. These are goods manufactured abroad bearing legitimate foreign trademarks that are identical to American trademarks. This situation typically arises when a foreign producer creates an American subsidiary that then registers the American trademark. Both the foreign producer and its American subsidiary often wish distribution in the United States to be exclusively controlled by the American subsidiary. If, however, the price at which the American subsidiary sells the goods exceeds the price at which the goods are sold abroad, other importers have an obvious incentive to purchase the goods abroad (typically from a third-party who has legitimately purchased directly from the foreign producer) and resell them in the United States—perhaps without certain associated services or warranties—at a price below that charged by the American subsidiary. The same result can occur, however, if the American trademark owner is the parent and the goods are manufactured abroad by a foreign subsidiary.

The appellants are the Coalition to Preserve the Integrity of American Trademarks (COPIAT), a trade

association of United States companies that own American trademarks, and two of its members, Cartier, Inc. and Charles of the Ritz Group Ltd. They urge that importation of goods bearing trademarks identical to their own is barred by two statutory provisions, Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526 (1982), and Section 42 of the Lanham Trade-Mark Act of 1946, 15 U.S.C. § 1124 (1982). Customs regulations implementing these statutes permit the importation of such goods, *inter alia*, if the American and foreign trademarks are owned by the same or affiliated entities or if the American trademark owner has authorized the foreign entity to use the trademark. 19 C.F.R. § 133.21(c)(1)(3) (1985). The individual corporate appellants and, apparently, many of COPIAT's other members fall within these categories of trademark owners exempted from protection against imports.

The appellants brought suit below against the Commissioner of Customs, the Secretary of the Treasury, and the United States, seeking a declaration that the regulations are invalid because inconsistent with the two statutes and an injunction prohibiting their enforcement and compelling enforcement of the express terms of the statutes. Two retailers who deal in grey-market goods, 47th Street Photo, Inc. and K-Mart Corporation, intervened as defendants. The district court initially determined that it had jurisdiction to adjudicate the claims presented, rejecting 47th Street Photo's argument that the United States Court of International Trade had exclusive jurisdiction over the action's subject matter. *Coalition to Preserve the Integrity of American Trademarks v. United States*, 598 F. Supp. 844, 847 (D.D.C. 1984) [41a]. On cross-motions for summary judgment and a motion to dismiss, the district court then upheld the Customs regulations, holding that they were a "sufficiently reasonable" interpretation of the governing statutes, "supported by legislative history, judicial decisions, legislative acquies-

cence, and the long-standing consistent policy of the Customs Service." *Id.* at 852 [52a].

The issues raised in this case are matters of first impression in this Circuit, and, moreover, have engendered considerable disagreement among the courts considering them to date. The district court's holding on the issue of its jurisdiction conflicts with that of the Federal Circuit in *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986). Its views on the validity of the Customs regulations are in accord with those expressed in *Olympus Corp. v. United States*, No. CV-84-0920 (E.D.N.Y. Aug. 22, 1985), *appeal docketed*, No. 85-6282 (2d Cir. Sept. 27, 1985); *Vivitar Corp. v. United States*, 593 F. Supp. 420 (Ct. Int'l Trade 1984), *aff'd on other grounds*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986); and *Parfums Stern, Inc. v. Customs Serv.*, 575 F. Supp. 416 (S.D. Fla. 1983), but in conflict with those expressed in *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984) and *Bell & Howell: Mamiya & Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated on other grounds*, 719 F.2d 42 (2d Cir. 1983). For the reasons stated herein, we conclude that the district court correctly held that it possessed jurisdiction over this action. We hold, however, that the district court erred in upholding the regulations, and that the appellants are entitled to a declaratory judgment that the regulations violate Section 526. Accordingly, we reverse the judgment of the district court.

I. JURISDICTION

At the outset, we are faced with a challenge to the jurisdiction of the district court and thus this court.[1] The issue is whether actions of this sort may properly be

[1] 47th Street Photo is the only party who argues that this court lacks jurisdiction.

brought in federal district court or whether they must in all cases be initiated in the Court of International Trade, with appellate jurisdiction in the Federal Circuit. In a recent case, the Federal Circuit held that by virtue of a provision of the Customs Courts Act of 1980, 28 U.S.C. § 1581 (1982), the Court of International Trade has exclusive jurisdiction over claims based upon Section 526. *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

Absent that enactment there could be no doubt of the district court's power to adjudicate this action under the grant of general federal-question jurisdiction, 28 U.S.C. § 1331 (1982), and under the grant of jurisdiction for actions "arising under any Act of Congress relating to patents, . . . copyrights and trade-marks." 28 U.S.C. § 1338(a) (1982). Jurisdiction over the Section 42 claim is also conferred by the Lanham Act's jurisdictional provision, 15 U.S.C. § 1121 (1982). Because the Customs Courts Act did not create any new substantive law, but merely provided for exclusive jurisdiction over certain categories of cases in the Customs Court (the predecessor of the Court of International Trade), it follows that the Act divests the district courts of some of their preexisting jurisdiction. *See Vivitar*, 761 F.2d at 1559-60. Specifically, it would seem that the district courts are without jurisdiction over any of the cases enumerated in 28 U.S.C. § 1581.[2]

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[2] 28 U.S.C. § 1581 provides, *inter alia*:

> (a) The Court of International Trade shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930.
>
> . . . .
>
> (i) In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section . . . the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States,

The Federal Circuit in *Vivitar* held that two subsections of 28 U.S.C. § 1581 apply to an American trademark owner's challenge to the Customs regulations in question. First, it maintained that the Court of International Trade has exclusive jurisdiction over such actions "as a corollary to protest jurisdiction under 28 U.S.C. § 1581(a)." *Vivitar*, 761 F.2d at 1560. Under 28 U.S.C. § 1581(a), the Court of International Trade has exclusive jurisdiction over challenges to Customs' denial of "protests" filed under Section 515 of the Tariff Act of 1930, 19 U.S.C. § 1515 (1982). Protests are administrative complaints available to importers challenging certain actions by Customs, including "the exclusion of merchandise from entry or delivery under any provision of the customs laws." 19 U.S.C. § 1514(a)(4) (1982). The case before the *Vivitar* court concerned an

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its agencies, or its officers, that arises out of any law of the United States providing for—

(1) revenue from imports or tonnage;

(2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;

(3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or

(4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section.

The parties appear to agree that the district court would have jurisdiction over the Lanham Act (Section 42) claim even if that claim fell within one the categories listed in 28 U.S.C. § 1581. We fail to see why that would be so: if the Customs Courts Act implicitly modifies 28 U.S.C. § 1331 and 28 U.S.C. § 1338(a) by vesting exclusive jurisdiction over specified cases in the Court of International Trade, then it ought to follow that it modifies the Lanham Act's jurisdictional provision, 15 U.S.C. § 1121, as well. We need not decide this issue, however, because we conclude that neither of the appellants' claims falls within the categories of cases listed in 28 U.S.C. § 1581.

American trademark owner's challenge to Customs' decision *not* to exclude the merchandise in question, and there is no provision for administrative protests by such interested third-parties. Nevertheless, the Federal Circuit maintained that the case involved a *subject matter* that would have given rise to a protest (by the importer), if the goods had been excluded rather than admitted.[3] It then concluded that the case fell within 28 U.S.C. § 1581(i)(4), which creates jurisdiction over actions against federal agencies arising under laws of the United States providing for "administration and enforcement with respect to the matters referred to in . . . subsections (a)-(h) of this section." The court reasoned that a challenge to Customs regulations permitting importation of the goods at issue implicated "administration and enforcement" of the "matter"—*i.e.*, a protestable subject matter—referred to in 28 U.S.C. § 1581(a); it viewed 28 U.S.C. § 1581(i)(4) as providing a "residual" basis for jurisdiction over cases not literally covered by 28 U.S.C. § 1581(a). *See Vivitar*, 761 F.2d at 1557-60.

We are of the opinion that the language of 28 U.S.C. § 1581(a) and (i)(4) will not bear the Federal Circuit's construction. We think, rather, that a sound reading indicates that the "matter[] referred to" in Section 1581(a) is the denial of protests, or simply protests. Because no right to protest arises from Customs' admission of goods—in contrast to its exclusion of goods—in such cases there is no administration and enforcement of this

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[3] The Government argues that a protest would not be available to an importer challenging an exclusion of goods under Section 526 because it is a trademark law, not a "customs law" and, therefore, the Court of International Trade and the Federal Circuit have no jurisdiction over cases arising under that Section. We believe, however, that *even if* 28 U.S.C. § 1581 covers the case of an importer's challenge to Customs' exclusion of goods under Section 526, it does not extend to a third-party's challenge to Customs' admission of goods. Thus, it is unnecessary for us to pass on this arcane point of Customs procedure.

"matter" (protests). The Federal Circuit apparently felt that this straightforward construction of the statute would render Section 1581(i)(4) duplicative of Section 1581(a). *See Vivitar*, 761 F.2d at 1559. We disagree: whereas Section 1581(a) only provides for jurisdiction over cases contesting the denial of a protest—in other words, challenging the basis of the denial—Section 1581 (i)(4) (as applied to Section 1581(a) provides additional jurisdiction over cases challenging the *procedures* —that is, the "administration and enforcement"—generally governing such protests.

The Federal Circuit alternatively held that the Court of International Trade had jurisdiction under 28 U.S.C. § 1581(i)(3), which relates to actions against federal agencies arising under any law of the United States providing for "embargoes or other quantitative restrictions on the importation of merchandise . . . ." *See Vivitar*, 761 F.2d at 1559-60. Again, we must respectfully disagree with the Federal Circuit's view. Although Section 526 undoubtedly prevents certain goods from entering the country (those with trademarks identical to American trademarks), we think it is not an "embargo" contemplated by 28 U.S.C. § 1581(i)(3). The other categories of cases enumerated in 28 U.S.C. § 1581(i) all specifically deal with traditional Customs matters (and thus lie within the Court of International Trade's expertise): cases arising under laws providing for "revenue from imports or tonnage," 28 U.S.C. § 1581(i)(1), or for "tariffs, duties, fees, or other taxes on the importation of merchandise . . . ," *id.* § 1581(i)(2). Thus, the structure of the statute belies any expansive reading of the term "embargo." Rather, it indicates that Section 1581(i)(3) only extends to quotas and embargoes arising out of trade policy, the sort of measures that have traditionally limited the importation of shoes, textiles, automobiles, and the like. Whereas subsection (i)(2) covers restrictive measures aimed at the *price* of imports

(tariffs, duties, etc.), subsection (i)(3) covers restrictions on the *quantity* of imports.

In sum, we conclude that this action does not fall within any of the specific provisions of 28 U.S.C. § 1581. We find nothing in the purpose or legislative history of 28 U.S.C. § 1581 justifying a departure from its literal terms. Congress' overriding purpose was to consolidate jurisdiction over certain matters involving international trade in a single specialized court, bringing uniformity and expertise to the area. But those ends would not be served in this case. Regardless of which court takes jurisdiction over actions commenced against the Government, the district courts would still have jurisdiction over actions under Section 526(c) against private parties. 28 U.S.C. § 1581 being no bar, we hold that the district court properly exercised jurisdiction over this action under 28 U.S.C. § 1331, 28 U.S.C. § 1338(a), and 15 U.S.C. § 1121.

II. The Validity of the Regulations

We turn, then, to the appellants' challenge to the Customs Service's failure to exclude all grey-market goods. The appellants claim that the Customs regulations permitting the importation of such goods where the American and foreign trademarks are owned by the same or related entities, or where the American trademark owner has authorized the use of the trademark, *see* 19 C.F.R. § 133.21(c)(1)-(3) (1985), are contrary to the statutes they purport to implement, Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Trade-Mark Act of 1946. We conclude that the regulations simply cannot be squared with Section 526 and are thus invalid. In light of this holding, it is unnecessary to decide whether the regulations would be consistent with Section 42 standing alone.

Section 526(a) provides:

> Except as provided in subsection (d) of this section, it shall be unlawful to import into the United

> States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1982).[4]

Section 526 does not, on its face, admit of any exceptions based upon the relationship of the American and foreign trademark owners or upon whether the American owner has authorized the use of the trademark abroad. Nevertheless, the appellees maintain, and the district court held, that the Customs regulations must be upheld as a reasonable interpretation of the statute by the agency charged with its enforcement. We think, however, that the district court misapprehended the doctrine

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[4] The remainder of Section 526 provides, *inter alia*:

> (b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.
>
> (c) Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trade-mark [under the Lanham Act].
>
> (d) (1) The trademark provisions of this section and [Section 42 of the Lanham Act] do not apply to the importation of articles accompanying any person arriving in the United States when such articles are for his personal use and not for sale if (A) such articles are within the limits of types and quantities determined by the Secretary . . . .

19 U.S.C. § 1526(b)-(d) (1982).

of deference to an agency interpretation of its governing statute. That doctrine only comes into play when it is apparent that "Congress has not directly addressed the precise question at issue." *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 (1984); *see Federal Election Comm'n v. Democratic Senatorial Campaign Comm.*, 454 U.S. 27, 31-32 (1981). "If the intent of Congress is clear, that is the end of the matter . . . ." *Chevron*, 467 U.S. at 842.[5] Thus, courts must exercise their independent judgment on the preliminary question of whether a statute unambiguously expresses congressional intent on the matter at issue; deference to an agency's interpretation becomes appropriate where the statute delegates authority to an agency to give content to flexible statutory terms or contains "gaps" that invite an agency role in interpretation. *See id.* at 843-44; *Federal Election Comm'n*, 454 U.S. at 31-32; *Morton v. Ruiz*, 415 U.S. 199, 231 (1974); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 380-81, 385-86 (1969).[6]

In this case, we believe that Congress' intent in Section 526 is clear, and thus "that is the end of the matter."

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[5] In *Chevron*, the Supreme Court put to rest whatever uncertainty may have existed over the respective provinces of courts and administrative agencies in interpreting regulatory statutes:

> The judiciary is the final authority on issues of statutory construction and must reject administrative constructions which are contrary to clear congressional intent. If a court, employing traditional tools of statutory construction, ascertains that Congress had an intention on the precise question at issue, that intention is the law and must be given effect.

467 U.S. at 843 n.9 (citations omitted).

[6] "[P]roperly understood, deference to an agency's interpretation constitutes a *judicial* determination that Congress has delegated the norm-elaboration function to the agency and that the interpretation falls within the scope of that delegation." *Montana v. Clark*, 749 F.2d 740, 745 (D.C. Cir. 1984), *cert. denied*, 106 S. Ct. 246 (1985) (citations omitted; emphasis in original).

See infra Part II.A. Alternatively, we hold that the Customs regulations are invalid because they do not constitute a reasonable interpretation of Section 526. *See infra* p. 29 [28a-29a].

A. *The Purpose of Section 526*

The broad protection afforded American trademark owners by Section 526 literally covers the appellants' situation. The appellees contend, however, that this court ought not be enticed by what they regard as the discredited "plain meaning" rule—that is, the traditional canon of statutory construction that precludes resort to extrinsic indicia of legislative intent if the language of a statute is unambiguous and fidelity to its literal terms will not produce an absurd result. It is not as clear as the appellees suggest that this canon of interpretation has been discredited. *See, e.g., Garcia v. United States*, 105 S. Ct. 479, 482-83 (1984); *TVA v. Hill*, 437 U.S. 153, 184 n.29 (1978); *Eagle-Picher Indus., Inc. v. EPA*, 759 F.2d 922, 929-30 & n.11 (D.C. Cir. 1985).[7] In any event, this case does not compel us to choose between the "plain meaning" of a statute and extrinsic indicia of intent: our review of the circumstances prompting the enactment of Section 526 and its legislative history persuade [sic] us that the statute embodies a purpose as sweeping as the terms its drafters employed.

1. Background.—The broad scope of Section 526 can best be understood in light of the fundamental changes in thinking about trademark protection taking place during the period of its inception. The Second Circuit's decision in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir.

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[7] Of course, even under the "plain meaning" rule a court may consult legislative history and other sources if it is contended that application of the literal terms of a statute will lead to an absurd result. *See TVA v. Hill*, 437 U.S. 153, 184 n.29 (1978). Thus, in practice it may be that the rule will rarely preclude resort to extrinsic indicia of intent.

1921), a major stimulus for the enactment of Section 526, restated the prevailing law on the subject.[8] In that case, the plaintiff, an American company, had purchased the United States trademark rights of a French firm whose face powder it imported and distributed. The defendant, a retail druggist, purchased the French firm's face powder abroad and imported and sold it in competition with the American trademark owner. The Second Circuit reversed an injunction issued against such competition. The Court reasoned that trademarks, unlike patents, do not confer any monopoly upon their owner; they merely indicate "the origin of the goods they mark, so that the owner and the public may be protected against the sale of one man's goods as the goods of another man." *Id.* at 543. "If the goods sold are genuine goods covered by the trade-mark, the rights of the owner of the trade-mark are not infringed." *Id.* The dissenting judge observed in response: "It is not yet settled whether a trade-mark is to be primarily regarded as protecting the trade-mark owner's business from a species of unfair competition, or protecting the public from imitations. The decision in this case seems to me to lean the wrong way . . . ." *Id.*

Congress passed Section 526 as an amendment to the Tariff Act of 1922 (which was before it at the time) while review of the Second Circuit's *Katzel* decision was pending in the Supreme Court. The Supreme Court subsequently reversed the Second Circuit's decision without mentioning Section 526, which was not at issue in the case.[9] Writing for the Court, Justice Holmes emphasized

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[8] *Katzel* was an infringement suit brought against a private party. It followed the reasoning of cases arising under Section 27 of the Trade-Mark Act of 1905 (the predecessor to Section 42 of the Lanham Act) that had rejected the claims of American trademark owners that Customs ought to exclude goods bearing genuine foreign trademarks identical to American trademarks. *See, e.g., Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916).

[9] Section 526 provides for remedies against private parties as well, *see* 19 U.S.C. § 1526(c), but the statute was not available to

that trademark law secures property rights as well as safeguarding the public from deception; he analogized the law's protection of trademarks to that afforded patented articles:

> If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. The monopoly in that case is more extensive, but we see no sufficient reason for holding that the monopoly of a trade mark, so far as it goes, is less complete.

A. Bourjois & Co. v. Katzel, 260 U.S. 689, 692 (1923) (citations omitted).

Justice Holmes' opinion adopted what has come to be called the "territoriality" theory of trademark. This approach maintains that the source and scope of trademark protection arise from the law of a *particular* sovereign state, and thus that it is meaningless to discuss the "genuineness" of a trademark in the abstract. *See* Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 Fordham L. Rev. 83, 106-109 (1986). Justice Holmes wrote:

> It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law . . . that the goods come from the plaintiff although not made by it.

260 U.S. at 692.[10]

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the plaintiff in *Katzel* at the time it brought suit and presumably it was thought that the subsequent enactment could not affect the case on appeal.

[10] Subsequently, in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923) (per curiam), a case with facts similar to those of *Katzel*,

2. Legislative History.—In enacting Section 526, Congress did not have the benefit of Justice Holmes' lucid, if characteristically terse, opinion in *Katzel*. Yet it is clear that Congress similarly rejected without qualification the legal theory underlying the Second Circuit's opinion in *Katzel*—the view that a trademark genuine in a foreign country is necessarily genuine here as well—and enshrined the alternative "territoriality" approach into law. Thus, the Conference Report accompanying the Tariff Act noted:

> A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark . . . .

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922). The report's reference to *Katzel* mistakenly identifies it

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the Supreme Court held that goods bearing genuine foreign trademarks identical to American trademarks should be excluded from the country by the Customs Service under Section 27 of the Trade-Mark Act of 1905 (the predecessor to Section 42 of the Lanham Act), which barred the entry of goods that "copy or simulate" a registered trademark.

The appellees note that Holmes' opinion in *Katzel* (upon which *Aldridge* relied) emphasized that the plaintiff had expended considerable sums in advertising the French firm's powder, so that "the labels have come to be understood by the public here as meaning goods coming from the plaintiff." 260 U.S. at 691. Thus, it is argued, *Katzel* and *Aldridge* suggest that a plaintiff must demonstrate the existence of independent domestic goodwill before he may prevail on a claim that goods bearing an identical but genuine trademark infringe his trademark, and likewise before he may demand that such goods be excluded from importation under Section 42. Whether or not such a limitation on the scope of protection afforded by Section 42 is inferrable from *Katzel*—a matter we do not decide—it is plain that no such restrictions limit the reach of Section 526.

as an import exclusion case rather than an infringement case; more important, however, is the report's reflection of Congress' sweeping rejection of prevailing legal doctrine.

The appellees argue that statements made during the ten-minute Senate debate on Section 526 show that that body was primarily concerned with the specific factual scenario presented in *Katzel* (or its misperception of the facts of *Katzel*). The appellees would have us extrapolate from this that Congress did not intend Section 526 to bar importation of goods bearing an American trademark where the American trademark owner is not "independent" of the foreign trademark owner. Of course, isolated remarks made during a floor debate are less authoritative sources of congressional intent than are committee reports, *Garcia v. United States*, 105 S. Ct. 479, 483 (1984); *United States v. O'Brien*, 391 U.S. 367, 385 (1968), and in particular conference reports. *Cf. Eagle-Picher Indus., Inc. v. EPA*, 759 F.2d 922, 929 n.10 (1985).

In any event, however, we think the Senate debate, considered as a whole, reinforces our conclusion that Section 526 confers an absolute, unqualified property right upon American companies that own registered trademarks. Despite the briefness of the debate (the proponents apparently had the votes), opponents raised sharp and passionate objections to the broad property rights granted. For example, Senator Moses declared that Section 526 "constitutes but another diamond-studded link in the chain with which the Committee on Finance seems bound to adorn the buxom bosom of certain interests in this country." 62 Cong. Rec. 11,602 (1922). Conversely, Senator McCumber, a co-sponsor of Section 526, emphasized the need to reform existing trademark doctrine, which he criticized as "stating that the trade-mark is simply to indicate the character of the goods, or the maker, so that we will know what the goods are; and

the courts will not protect the individual [trademark owner]." *Id.* at 11,605. Among the "individuals" that Congress appears specifically to have sought to protect were Americans who purchased the U.S. trademark rights of such well-known products as Bayer aspirin from the Government's Alien Property Custodian (who held the American assets of German companies seized during the First World War). *See id.* at 11,604 (remarks of Sen. McCumber); *id.* (remarks of Sen. Simmons).

Admittedly, Senator McCumber incorrectly described *Katzel* as a case where the firm that sold its American trademark rights to the plaintiff thereafter *itself* marketed identically-trademarked goods in the United States. *Id.* at 11,605. And Senator Sutherland declared: "[A]ll that [Section 526] does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and [sic] when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trademarks." *Id.* at 11,603. In context, however, such statements are best understood as efforts by proponents of a bill to understate its significance by focusing on its most notorious targets. Shortly after Senator Sutherland's assertion that the measure would only "prevent fraud," an opponent, Senator Lenroot, raised a number of questions about the scope of Section 526. He first suggested a hypothetical case of an American citizen purchasing a sack of American-made Wonder flour in Toronto and then seeking to return home with it. *Id.* at 11,603. As he read the provision, crossing the border with the sack of Wonder flour would be illegal. Senator Sutherland answered, "And it ought to be," *id.* at 11,603, which clearly suggests that this previous statement concerning "fraud" must be taken with a grain of salt.

In any event, others apparently thought this result too harsh on the hypothetical purchaser of Wonder flour.

Senator McCumber suggested, and the body agreed, that the proposed version of Section 526 be amended to its present form to cover only goods "of foreign manufacture." *Id.* at 11,603-04. Importantly, he did *not* answer Senator Lenroot's hypothetical case by simply noting (as the Customs Service would under its regulations) that the owners of the American and Canadian trademarks were the same company, or that the American trademark owner had authorized the use of the trademark.

Later in the debate, a scenario quite like the facts of the instant case was discussed. Senator McCumber was asked whether Section 526 would preclude competition with an American firm that acquired an exclusive distributorship of a foreign trademarked article, Pears' soap. *Id.* at 11,605. Senator McCumber responded that Section 526 would not have that effect because only registered trademarks owned by American domiciliaries were protected by it. *Id.* In fact, Senator McCumber was mistaken; the original version of Section 526 required that the trademark be registered by an American domiciliary, but did not require that it be *owned* by an American citizen or corporation. The House subsequently discovered this omission, and the conferees amended Section 526 to add such a requirement. H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922).

Senator McCumber's response, however, did not satisfy Senator Lenroot, who was concerned that foreign corporations could obtain the statutory monopoly simply by incorporating an American subsidiary. In the debate's final colloquy, Senator Lenroot pressed Senator McCumber on this point. To be sure, Senator McCumber's answer, whether designedly or not, was not a model of clarity:

> SEN. LENROOT: We will assume that Pears' soap . . . is not registered in the United States. It is sold in the general markets throughout the world, but the makers of Pears' soap desire a monopoly in the United States. They have American agents who

> register a trade-mark of Pears' soap here in the United States. I want to inquire whether any American could purchase Pears' soap abroad and import it without the written consent of their agent here in the United States, and if not, why not?
>
> SEN. MCCUMBER: [I]f there has been no transfer of trade-mark, that presents an entirely different question. But suppose the trade-mark is owned exclusively by an American firm or corporation. The mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision.
>
> SEN LENROOT: This is an international trade-mark of Pears' soap, registered here by an American, with American domicile. Under it Pears' soap could not be bought in the markets of the world and sold here without the written consent of the Pears' soap company, or their agent domiciled here in America.

62 Cong. Rec. 11,605 (1922). At this point, time ran out on the debate, and so despite his doggedness Senator Lenroot never got an acceptable answer to his question.

Thus, the debate does not unequivocally resolve all questions about the scope of Section 526. Nevertheless, we think that the appropriate inference to be drawn is that Senator Lenroot was correct in fearing that the statute meant exactly what it said. We recognize that just as a proponent of a bill may tend to downplay its significance, an opponent may be prone to exaggerate its repercussions. But no Senator suggested that Senator Lenroot's reading of the statute was unwarranted. To the contrary, two amendments to Section 526 were made to respond to specific hypothetical cases that he raised: first, the Senate added the limitation that only foreign-made goods were covered; second, the House added the

requirement that only American companies were entitled to the protections of the statute. Senator Lenroot explicitly raised the issue of an American subsidiary of a foreign company, but the conferees did not further amend the statute. The reasonable inference to be drawn from all this is that the lawmakers consciously drew the line at American companies, and did not adopt distinctions among different categories of American companies.[11]

3. The 1930 Reenactment.—In 1930, the statute was repealed and reenacted in identical form, becoming Section 526 of the Tariff Act of 1930. The reenactment followed an unsuccessful effort to amend the statute by deleting the clause permitting an American trademark owner to consent to the admission of goods bearing its trademark into the country. That effort was designed to protect American jobs by preventing U.S. manufacturers from establishing foreign-based plants. *See* S. Rep. No. 37, 71st Cong., 1st Sess. 75 (1929) ("[W]here the laws of the United States protect the interest of a trade-mark holder by allowing him a monopoly in the use of the mark, it is reasonable to require, so far as practicable, that, in return, the holder of the trade-mark shall manufacture his goods in the United States."). Although this amendment did pass the Senate, it was rejected by the House and abandoned in conference. 72 Cong. Rec. 7870 (1930). This failed amendment further demonstrates Congress' understanding that Section 526 absolutely barred importation of goods bearing an American company's trademark without the company's consent. If, as the Customs Service now contends, the Act does not bar the importation of goods bearing a genuine trademark

[11] The appellants points out that in other statutes Congress has not only required that corporations be created in the United States but has required that certain percentages of voting stock be owned by Americans or that a certain percentage of the seats on the board of directors be held by Americans. *See, e.g.*, provisions of the Federal Aviation Act of 1958, 49 U.S.C. § 1301(16) (1982); Communcations Act of 1934, 47 U.S.C. § 310(b)(3)-(4) (1982).

identical to an American trademark where the American and foreign trademark owners are the same company, or where the American trademark owner has authorized the use of the trademark, then the 1929 Senate passed an amendment that would have been wholly ineffectual and purposeless.[12]

Of course, because the statute was reenacted in identical form, the legislative history of the original enactment is of primary significance. Nevertheless, the events of 1929-30 reinforce our interpretation of the original legislative purpose. Although the attempt to amend the terms of Section 526 failed, no Member of Congress suggested that the amendment should be rejected because it could not achieve its intended purpose. Thus, it would seem that the entire body in 1930—those favoring and those opposing the amendment—believed that Section 526 applied to all situations literally within its terms.

4. Contemporaneous Interpretations.—The courts' reception of Section 526 supports our conclusion that it contains no implied exceptions. *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931), held that Section 526 barred an individual's importation of a trademarked automobile for his personal use. The Second Circuit, referring to the Act as "drastic," rejected an

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[12] Thus, the appellees can obtain no solace from the statement of Senator Reed during the floor debate on the 1930 reenactment:

> At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trade-mark consents in writing to that importation. Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.

71 Cong. Rec. 3873 (1929). Because Senator Reed was a *proponent* of the effort to strip American trademark owners of the privilege of consenting to imports, logically the phrase "without his consent" in his remarks modifies "importations" rather than "stamped with his mark."

argument that it only applied in situations similar to the facts of *Katzel*. Although Section 526 was enacted in response to *Katzel*, Judge Augustus N. Hand observed, "this fact does not settle the scope of the act." *Id.* at 1037.

For its part, the Customs Service gave no hint in its initial interpretations that it discerned implied limitations on the scope of Section 526. Its first set of regulations in 1923 simply referred to the Act without attempting to interpret it. Customs Regulations of 1923, Art. 476. The Customs Service's second set of regulations, promulgated after the 1930 reenactment of Section 526, merely stated: "Entry is prohibited of imported merchandise bearing a genuine trade-mark [identical to a properly recorded and registered American trademark] if compliance is had with all provisions of section 526 of the tariff act of 1930 . . . ." Customs Regulations of 1931, Art. 518(a).

In light of the language of the statute, its legislative history and purpose, and the contemporaneous constructions placed upon it, we conclude that Section 526 simply cannot be limited in the manner that the Customs Service has attempted. *See Vivitar*, 761 F.2d at 1561-65. Because Congress' intent on the issue at hand is apparent, we must give effect to that intent irrespective of current administrative interpretations. *Chevron*, 467 U.S. at 842-43 & n.9. In Section 526, Congress defined the relevant statutory terms with precision and did not delegate authority, explicity or implicitly, to the Customs Service to adjust the scope of the statute in response to its perceptions of changing economic circumstances. What the statute meant in 1922 and in 1930 is what it means today.

B. *Subsequent Legislative and Administrative History*

The appellees maintain that the Customs regulations are supported by developments in the half-century since the passage of Section 526. First, they contend that the

regulations embody a reasonable, longstanding administrative interpretation of the statute; second, they suggest that Congress has manifested its "acquiescence" in that interpretation. We have already explained that the first argument must fail because deference to an agency's construction is inappropriate when congressional intent is clear; alternatively, we conclude that even if the Customs Service properly enjoys some role in construing the scope of Section 526, the regulations at issue do not in fact constitute a "sufficiently reasonable" interpretation of the statute. *Federal Election Comm'n*, 454 U.S. at 39. *See infra* p. 29 [28a-29a]. We also reject the appellees' argument that Congress has somehow ratified the Customs Service's interpretation through its silence. *See infra* pp. 29-31 [28a-31a].

1. Developments in the 1930s and 1940s.—Neither the 1923 nor the 1931 regulations had recognized any exceptions to the broad mandate of Section 526. Each contained separate articles enforcing the prohibition of Section 27 of the Trade-Mark Act of 1905 (the predecessor to Section 42 of the Lanham Act) against the entry of goods bearing trademarks that "copy or simulate" registered trademarks. *See* Customs Regulations of 1923, Art. 475; Customs Regulations of 1931, Art. 517(b). In 1936, however, the Customs Service unveiled a new approach. Article 518 of the 1931 regulations, which had dealt solely with Section 526, was now amended to correspond to the language of Section 27. The new Article 518 provided, *inter alia*, that foreign goods bearing a genuine trademark identical to an American trademark "shall be deemed for the purposes of these regulations to copy or simulate such protected trade-mark," T.D. 48,537 (1936);[13] however, it then exempted from this prohibi-

[13] Amended Article 518 also contained a marginal reference to *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), which, it will be recalled, had held that Section 27 barred grey-market imports under circumstances similar to those present in *Katzel*. *See supra* note 10.

tion articles bearing foreign trademarks owned "by the same person, partnership, association, or corporation" as the American trademark in question. *Id.* The Customs Service regulations offered no explanation for this change, and it is doubtful that amended Article 518 even purported to interpret Section 526 as well as Section 27.[14]

Certainly the United States Tariff Commission (now the International Trade Commission), another agency dealing with trade matters, did not think so. In 1944, when Congress held hearings on legislation that eventually became the Lanham Trade-Mark Act of 1946, it considered a memorandum submitted by that agency suggesting that Article 518 of the 1936 regulations, in view of its "copy or simulate" language, implemented Section 27 *but not* Section 526. Hearings Before a Subcomm. of the Comm. on Patents on H.R. 82, United States Senate, 78th Cong., 2d Sess. 86-87 (1944). The Commission justified this interpretation of Section 27 on the grounds that an enterprise could not "copy or simulate" its own trademark. *Id.* at 87. On the other hand, the Commission maintained, "Section 526 of the tariff act *does* apply to the merchandise of the trade-mark owner which bears his trade-mark if the merchandise was produced abroad and if the trade-mark owner is a citizen of the United States." *Id.* (emphasis added). After having been informed of the relationship between the two statutes and the prevailing administrative practice, Congress left Section 526 untouched and reconstituted Section 27 in identical form as Section 42 of the Lanham Act.

2. Developments in the 1950s.—Events of the 1950s reveal the Customs Service's profound confusion about the scope of Section 526 and its relationship to Section 42. On the one hand, in a 1951 private letter, the Com-

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[14] However, although Article 518 of the 1936 regulations did not expressly rely upon Section 526 as statutory authority, the Customs Service's 1943 recodification of its regulations did add a marginal citation to Section 526. *See* 19 C.F.R. § 11.14(b) (1943).

missioner of Customs set forth the agency's view that Section 526 did not bar importation of the trademarked article of a foreign subsidiary of an American trademark owner. Letter from Frank Dow, Commissioner of Customs, to Sen. Paul H. Douglas, March 23, 1951 (Joint Appendix (J.A.) at 350). In 1953, Customs had the opportunity to codify this view when it amended the applicable regulation (now renumbered as Section 11.14) to provide that a genuine foreign trademark will not be deemed to copy or simulate an identical American trademark if both are owned by the same company *or* related companies. 19 C.F.R. § 11.14 (1953). But the amended regulation actually *deleted* a reference to Section 526 as statutory authority. And, to confound matters further, in 1958 the Solicitor General of the United States informed the Supreme Court that the Customs Service regarded Section 526 as a bar to importation of grey-market goods even in the related-company context. The Government had brought an antitrust action against American affiliates of foreign enterprises who had used Section 526 to preclude competition from grey-market imports. A district court had held that Section 526 did not protect such American affiliates and had found them guilty of antitrust violations. *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957). On direct appeal to the Supreme Court, the Solicitor General informed the Court that the United States wished to abandon the suit, noting the existence of intragovernmental conflict over the interpretation of Section 526 and suggesting that new legislation would be introduced to settle the controversy. Appellee's Motion to Vacate at 7, *Guerlain, Inc. v. United States*, 358 U.S. 915 (1958). According to the Solicitor General, the Justice Department's Antitrust Division considered Section 526 unavailable to American subsidiaries of foreign trademark owners, while Customs regarded itself as "legally constrained" to enforce Section 526 literally. *Id.* The Supreme Court accordingly vacated the lower court's judgment. *Guerlain*, 358 U.S. at 915.

During the 1950s, Congress also reconsidered Section 526. In 1954, a bill was introduced in Congress that would have made the protections of Section 526 unavailable to an American trademark owner affiliated with the owner of an identical foreign trademark—in other words, a bill that closely parallels the Customs regulations at issue here. H.R. 9476, 83d Cong., 2d Sess. (1954). That bill, however, was defeated. In 1959, after the Supreme Court vacated the *Guerlain* judgment at the Solicitor General's request, another bill was introduced that would have repealed Section 526 altogether. H.R. 7234, 86th Cong., 1st Sess. (1959). But Congress rejected that proposal too.

In the aftermath of the *Guerlain* imbroglio, the Customs Service amended its regulations to delete the "related company" exception (while retaining the "same company" exception) and to add a citation to Section 526 as statutory authority for the regulations. *See* 19 C.F.R. § 11.14 (1959). There is some evidence, however, that the Customs Service privately continued to regard related companies as outside the scope of Section 526's protection. *See* Letter from D.H. Flynn, Deputy Commissioner of Customs, to Walter A. Slowinski, Esq., June 27, 1962 (J.A. at 355); Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 Trade-Mark Rep. 301, 310 (1969).

3. Developments in the 1970s.—The regulations were adopted in their current form in 1972. These regulations, we have noted, deny the protections of Section 526 to an American trademark owner when that company or an affiliate owns the foreign trademark or when it has authorized the use of the trademark. 19 C.F.R. § 133.21 (c)(1)-(3). At no risk of overstatement, however, we observe that the Customs Service has not carefully explained exactly what purpose the regulations serve. The Federal Register notice accompanying the 1972 regula-

tions, 37 Fed. Reg. 20,677 (1972), offers no insight into the agency's reasoning. From the scattered evidence the parties have cited to us, it appears that the regulations might be regarded as resting in part on a reading of the legislative history of Section 526, *see* Letter from Walker B. Comegys, Acting Assistant Attorney General, Antitrust Division, to Miles J. Ambrose, Commissioner of Customs, April 19, 1971 (J.A. at 343), and in part on an accommodation of Section 526 with the policy of the antitrust laws. *See id.; see also* Letter from Treasury Secretary Donald T. Regan to Senator Dennis DeConcini, December 23, 1983 (J.A. at 319) (stating that the regulations are based on the *Guerlain* case). But prevailing antitrust doctrine has changed significantly since the *Guerlain* era. Perhaps because it is now recognized that domestic vertical restraints such as territorial market divisions may in fact have procompetitive effects, *see, e.g., Continental T.V., Inc. v. G.T.E. Sylvania, Inc.*, 433 U.S. 36 (1977), the Government apparently no longer emphasizes the antitrust aspects of its interpretation of Section 526.[15] In fact, in a recent case the Justice Department—joined, significantly, by the Customs Service —filed an amicus brief arguing that Section 526 raised no antitrust concerns and *ought to be enforced according to its express terms. See* Brief of United States as Amicus Curiae, *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983). That amicus brief, seemingly flatly at odds with the Customs regulations under challenge here, represents yet another curious turn in the sixty years of Customs' administration of Section 526.

In 1978, a congressional committee report reviewing the statute took notice of Customs' interpretation. In

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[15] We wish particularly to emphasize, however, that we express no view as to how antitrust analysis bearing on domestic vertical arrangements applies to the extraterritorial arrangements present in this case.

the Customs Procedural Reform and Simplification Act of 1978, Pub. L. No. 95-410, 92 Stat. 888, Congress created an exception from the broad ban of Section 526 for goods brought into the country by individuals for their personal use, 19 U.S.C. § 1526(d) (1982); thus, after almost fifty years, Congress reversed the rule of *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931), *discussed supra* at p. 22 [21a-22a]. The House report accompanying this legislation stated:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977). Neither the Senate report, *see* S. Rep. No. 778, 95th Cong., 2d Sess. 33 (1978), nor the conference report, *see* H.R. Rep. No. 1517, 95th Cong., 2d Sess. 16 (1978), contained any similar reference to administrative practice.

* * *

From this review, we find that the Customs Service's interpretation of Section 526 does not display the necessary "thoroughness, validity, and consistency" to merit judicial acceptance. *Federal Election Comm'n*, 454 U.S. at 37. The Customs Service's interpretation under review here was not adopted contemporaneously with the statute, *see Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978); moreover, the first set of Customs regulations announcing this policy appeared to implement *another* statute, then-Section 27 of the Trade-Mark Act of 1905, rather than Section 526. Nor has the Customs Service's interpretation since that time been sup-

ported by anything more than poorly articulated and vacillating reasoning. As our analysis shows, *see supra* Part II.A.2., the legislative history of Section 526 provides little if any support for its interpretation. At least since the 1950s, Customs' interpretation has been driven in large part by a perceived need to obviate the antitrust problems raised by a multinational corporation's use of an American subsidiary to preclude competition in the distribution of its trademarked product. But even if the Customs Service possessed the authority to infuse antitrust concerns into Section 526—a dubious proposition at best, *see Osawa & Co. v. B & H Photo*, 589 F .Supp. 1163, 1177-78 (S.D.N.Y. 1984)—the Service (together with the Justice Department) has not been remotely consistent in its exercise of that authority. We conclude that the Customs regulations cannot be upheld as a reasonable construction by the Customs Service of a statute it is charged with enforcing. *See Vivitar*, 761 F.2d at 1565-68.

We also reject the district court's view that this history reveals "a pattern of legislative acquiescence . . . indicat[ing] acceptance by the Congress of the Customs Service's interpretation of section 526 . . . ." *Coalition to Preserve the Integrity of American Trademarks v. United States*, 598 F. Supp. 844, 851 (D.D.C. 1984) [49a-50a]. In reaching this conclusion, we think that the district court departed from sound principles of statutory construction. To begin with, "unsuccessful attempts at legislation are not the best of guides to legislative intent." *Red Lion Boardcasting Co. v. FCC*, 395 U.S. 367, 382 n.11 (1969) (citations omitted). Indeed, the unsuccessful efforts in 1954 and 1959 to repeal or modify Section 526, if anything, would suggest that Congress *rejected* a narrow view of its scope. Nor can approval of the Customs Service's interpretation of Section 526 be inferred more generally from Congress' failure to correct that interpretation. Since the Framers of our Constitution deliberately made the passage of legislation difficult—more diffi-

cult, for instance, than in parliamentary democracies—Congress simply cannot be obliged affirmatively to correct subsequent administrative interpretations inconsistent with original legislative intent; that is the responsibility of the courts. *See Vivitar*, 761 F.2d at 1568 ("Legislation by total silence is too tenuous a theory to merit extended discussion.").

The circumstances surrounding the 1978 amendment also fail to support a case of congressional "ratification" of the Customs Service's interpretation of Section 526. In 1978, Congress simply added an amendment to the statute; thus, the proposition that Congress may be presumed to have adopted well-known administrative interpretations of a statute when it reenacts that statute without change, *see Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 382 n.66 (1982), is inapplicable to this case. Congress reconsidered and addressed only the narrow issue of tourists returning to the country with trademarked goods intended for their personal use. That Congress deemed it necessary to amend the statute to exempt such cases from the statutory ban, in fact, suggests that it rejected the existence of implied limitations on the scope of Section 526. One casual statement in a committee report of one chamber, moreover, simply does not demonstrate Congress' "prolonged and acute awareness" of the Customs Service's interpretation, much less its "approval" and adoption of that interpretation. *See Bob Jones University v. United States*, 461 U.S. 574, 601 (1983).

The intervenors argue with great vigor that Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. That may well be so. They further contend that other nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their

countries in this fashion, and that Section 526 in today's international market constitutes a sort of economic unilateral disarmament. That may also be so. Moreover, it is certainly true that economic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago. All of these arguments are properly addressed to Congress; it is not open to the Customs Service, still less the Judiciary, to modify the law to take into account these considerations.

C. *Enforcement Discretion*

Although it agreed that the Customs regulations do not represent a reasonable interpretation of Section 526, the Federal Circuit in *Vivitar* concluded that the Customs regulations can be upheld "as a reasonable exercise of administratively initiated enforcement." 761 F.2d at 1571. In its view, the Customs Service's policy of admitting certain categories of grey-market goods could be analogized to an agency's traditional prerogative of deciding when and how to enforce the statute it administers. We must reject this conclusion, however, for what seems to us a compelling reason: the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion. *See SEC v. Chenery Corp.*, 332 U.S. 194, 196 (1947). From the start, the Customs Service has regarded the regulations as its interpretation of what the law requires rather than as a decision not to prosecute to the letter of the law. *Cf. United Auto. Aerospace & Agr. Implement Workers v. Brock*, 783 F.2d 237, 245-46 & n.15 (D.C. Cir. 1986) (contrasting interpretation of law from exercise of enforcement discretion). Indeed, the Customs Service has historically enforced what it regards to be the law so relentlessly that it required an amendment to the statute to permit tourists to bring

items intended for personal use back into the country with them. *See* 19 U.S.C. § 1526(d) (1982). Thus, this case simply does not raise the question of whether the Customs Service could refrain from excluding certain grey-market goods as an exercise of enforcement discretion.[16]

III. REMEDY

We turn to the remedy. The appellants have requested that the Customs Service be enjoined from enforcing the present regulations and ordered, in effect, to enforce the statute to its fullest. We think, however, that injunctive relief is inappropriate at this juncture of the controversy. The appellants have levelled a facial challenge to the validity of the regulations; the relief they seek is not an order compelling the Customs Service to exclude specific goods, but rather a broad decree that would entail continuing supervision by the courts. We must decline the invitation. Although the appellants are entitled to declaratory relief—"an alternative to the strong medicine of the injunction," *Steffel v. Thompson*, 415 U.S. 452, 466 (1974)—their request for injunctive relief should be denied.

For the foregoing reasons, the judgment of the district court is *reversed* and the case is *remanded* to the district court with instructions to issue a declaratory judgment that the Customs regulations in question, 19 C.F.R. § 133.21(c)(1)-(3), are contrary to Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, and hence unlawful.

So ordered.

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[16] Thus, we are not obliged to decide whether Customs' adoption of a general policy of admitting certain categories of grey-market goods that are concededly barred by Section 526 would amount to "an abdication of its statutory responsibilities." *Heckler v. Chaney*, 105 S. Ct. 1649, 1656 n.4 (1985) (citing *Adams v. Richardson*, 480 F.2d 1159 (D.C. Cir. 1973) (en banc).

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

May 6, 1986

RE: No. 84-5890—Coalition to Preserve the Integrity of American Trademarks, et al. v. United States of America, et al.

Dear Counsel:

Enclosed herewith are three (3) copies of the opinion in the above entitled case.

Please note that the judgment has been entered on the same date as the opinion and is for mandate purposes only.

Sincerely,

/s/ Denise C. Thomas
DENISE C. THOMAS
Opinions Clerk

enclosures

Distribution:

William H. Allen, Esquire
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UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

September Term, 1985

Civil Action No. 84-00390

No. 84-5890

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
Appellants

v.

UNITED STATES OF AMERICA, *et al.*

[Filed May 6, 1986]

ORDER

It is ORDERED, *sua sponte*, that the Clerk shall withhold issuance of the mandate herein until seven days after disposition of any timely petition for rehearing. *See* Local Rule 14, as amended on November 30, 1981 and June 15, 1982. This instruction to the Clerk is without prejudice to the right of any party at any time to move for expedited issuance of the mandate for good cause shown.

For The Court
GEORGE A. FISHER
Clerk

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

September Term, 1985

No. 84-5890

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

v.

UNITED STATES OF AMERICA, *et al.*

[Filed Jul. 18, 1986]

Before: Mikva, Bork and Silberman, Circuit Judges

ORDER

Upon consideration of the petitions for rehearing of the United States, K-Mart Corporation, and 47th Street Photo, Inc., it is

ORDERED, by the Court, that the petitions are denied.

Per Curiam

BY THE COURT
GEORGE A. FISHER
Clerk

By: /s/ Robert A. Bonner
ROBERT A. BONNER
Chief Deputy Clerk

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

September Term, 1985

No. 84-5890

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

v.

UNITED STATES OF AMERICA, *et al.*

[Filed Jul. 18, 1986]

Before: Robinson, Chief Judge; Wald, Mikva, Edwards, Ginsburg, Bork, Scalia, Starr, Silberman, Buckley and Williams, Circuit Judges

ORDER

The suggestions for rehearing *en banc* of the United States, K-Mart Corporation, and 47th Street Photo, Inc. have been circulated to the full Court. No member of the Court requested the taking of a vote thereon. Upon consideration of the foregoing, it is

ORDERED, by the Court *en banc*, that the aforesaid suggestions are denied.

Per Curiam

BY THE COURT
GEORGE A. FISHER
Clerk

By: /s/ Robert A. Bonner
ROBERT A. BONNER
Chief Deputy Clerk

Circuit Judges Scalia and Williams did not participate in this order.

UNITED STATES COURT OF APPEALS
FOR THE DISTRICT OF COLUMBIA CIRCUIT

CA No. 84-00390

No. 84-5890

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

v.

UNITED STATES OF AMERICA, *et al.*

[Filed Aug. 6, 1986]

Before: Mikva, Bork and Silberman, Circuit Judges

ORDER

Upon consideration of the motions for stay of issuance of the mandate, it is

ORDERED, by the Court, that the motions are granted, and the Clerk is directed to withhold issuance of this Court's mandate through September 30, 1986.

Per Curiam

BY THE COURT
GEORGE A. FISHER
Clerk

By: /s/ Robert A. Bonner
ROBERT A. BONNER
Chief Deputy Clerk

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

Civil Action No. 84-0390

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
Plaintiffs,

v.

THE UNITED STATES OF AMERICA, *et al.*,
Defendants,

and

47TH STREET PHOTO, K-MART CORPORATION,
Intervenor-Defendants.

[Filed Dec. 5, 1984]

MEMORANDUM OPINION

Plaintiffs bring this action for declaratory and injunctive relief, in part in the nature of mandamus, alleging that certain regulations of the Customs Service, an agency of the Department of the Treasury, are inconsistent with the Tariff Act of 1930 and the Lanham Trademark Act of 1946. Asserting that these regulations deny them their entitlement to the full protection of their trademarks as mandated by these statutes, plaintiffs seek a declaration that the regulations are inconsistent with the statutes, an injunction prohibiting enforcement of these regulations, and an order directing that the statutes be enforced in accordance with their express terms.

BACKGROUND

Plaintiffs, American companies suing individually or by representation through their membership in the Coalition to Preserve the Integrity of American Trademarks (COPIAT), are manufacturers or distributors of such trademarked products as fragrances and cosmetics, watches, tires, fine crystal, cameras, photographic equipment, binoculars, and electronic goods. As owners of trademarks registered with the United States Patent and Trademark Office, plaintiffs have also filed copies of the certificates of registration with the Customs Service pursuant to section 42 of the Lanham Act. They claim to suffer damage from the importation and sale in this country of products known as diverted, gray-market, or parallel goods manufactured by their foreign subsidiaries or licensees and bearing their trademarks but imported without authorization. Seeking a mandatory order directing the Customs Service to exclude such goods from entry into this country, plaintiffs contend that the Tariff Act of 1930 and the Lanham Trademark Act of 1946 give them an unqualified right to demand such exclusion. Although plaintiffs license certain foreign subsidiaries to manufacture goods bearing their trademarks, they assert that unrelated third parties import these products without their consent.

Defendants are the United States of America, Donald T. Regan, Secretary of the Treasury, and William Von Raab, Commissioner of the United States Customs Service. Intervenor-defendant 47th Street Photo is a retailer of camera, video, and other electronic equipment in New York City. Intervenor-defendant K-Mart Corporation (K-Mart) is a mass merchandiser and retailer operating more than 2,000 discount department stores. Both 47th Street Photo and K-Mart are engaged in the sale of diverted goods to consumers in this country. Progress Trading Company, Inc., and The American Free Trade Association, which import and distribute diverted goods,

as well as four American consumers, were granted leave to file briefs as amici curiae and support the position of K-Mart.

This matter is presently before the Court on the motion of intervenor-defendant 47th Photo to dismiss, plaintiffs' motion for summary judgment, the cross motion of federal defendants for summary judgment, and the cross motion of intervenor-defendant K-Mart for summary judgment. For the reasons set forth below, the motion of 47th Street Photo to dismiss will be granted in part and denied in part; the motion of plaintiffs for summary judgment will be denied; and, the cross motions of federal defendants and K-Mart for summary judgment will be granted.

MOTION TO DISMISS

The Court first turns its attention to the threshold issue of jurisdiction and considers the motion of intervenor-defendant 47th Street Photo to dismiss for lack of subject matter jurisdiction. 47th Street Photo contends that the Court of International Trade has exclusive jurisdiction over plaintiffs' claims under section 526 of the Tariff Act and that plaintiffs' averments with respect to section 42 of the Lanham Act fail to state a claim upon which relief may be granted. In support of the motion to dismiss under the Tariff Act, 47th Street Photo relies on a virtually identical action recently decided in the United States Court of International Trade wherein that court rendered a decision on the very jurisdictional issue presented by this case. In *Vivitar Corp. v. United States, et al.*, slip op. 84-37 (CIT April 4, 1984), the Court of International Trade held that it possesses exclusive jurisdiction over claims arising under section 526 of the Tariff Act. The court premised its jurisdiction on its exclusive jurisdiction under 28 U.S.C. § 1581(a) over international trade disputes and rejected the argument that jurisdiction properly lies in the District Courts because the action is based primarily on United States

trademark laws. In addition, 47th Street Photo argues that for prudential reasons the Court of International Trade should exercise jurisdiction over this complex issue in order to avoid duplication of judicial and legal resources and possible conflicting decisions. In opposition to the motion to dismiss the claim under the Tariff Act, plaintiffs contend that this court has jurisdiction over all aspects of the case.

The Court rejects intervenor-defendant's contentions and finds that jurisdiction is present in this case by virtue of the general federal question jurisdiction under 28 U.S.C. § 1331, the specific jurisdiction under 28 U.S.C. § 1338(a) of actions arising under statutes relating to trademarks, and the specific jurisdiction under 15 U.S.C. § 1121 of all actions arising under the Lanham Trademark Act. This case, contrary to the arguments of 47th Street Photo, is not within the purview of any of the specific provisions of 28 U.S.C. § 1581 which would vest the United States Court of International Trade with exclusive jurisdiction. Therefore, the motion of 47th Street Photo to dismiss for lack of subject matter jurisdiction must be denied.

47th Street Photo also contends that the amended complaint fails to state a claim under section 42 of the Lanham Act, 15 U.S.C. § 1124, in that the goods in question bear a genuine trademark rather than one that copies or simulates a registered trademark. Section 42 of the Lanham Act provides that "no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States . . . ." Plaintiffs argue that despite the statute's plain language, the Supreme Court's decisions in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *reversed* 260 U.S. 689 (1923), and *A. Bourjois & Co. v. Aldridge*, 292 F. 1013 (2d Cir. 1922), 263 U.S. 675 (1923), construed section 27 as barring the

parallel importation of genuine trademarked goods. However, the Court finds that *Katzel* and *Aldridge* are distinguishable from the instant case. In *Katzel*, the Supreme Court held that an American purchaser of domestic trademark rights was totally independent from the foreign manufacturers and became the complete master of the trademark in the United States for the reason that the public recognized the American purchaser as the sole source of goods in the United States. It was further held that the foreign manufacturer, who had sold its business and trademark in this country, could not subsequently import its products to this country using the old trademark in competition with the American purchaser of the trademark. The *Katzel* holding was premised largely on the equities of the case and was intended to overcome the unfairness of permitting the foreign manufacturer, having sold its trademark rights to another, to thereafter arrange to have its goods marketed in the United States by someone other than the independent American purchaser.

Shortly thereafter, in *Aldridge*, with facts identical to those in *Katzel*, the Supreme Court ruled *per curiam* that the same plaintiff as in *Katzel* could prevent the importation by a third party of face powders made in France by the same company from which the plaintiff obtained its powder. Thus, the *Aldridge* decision, which was tied completely to the facts and analysis of *Katzel*, held only that infringing goods within the equitable reasoning of *Katzel* could be excluded. Under *Katzel* and *Aldridge*, a trademark on imported merchandise would be deemed to "copy or simulate" if the United States registrant who had purchased the rights was truly independent of the foreign entity applying the mark abroad and had developed its own goodwill in the American marketplace.

The Court finds, based on the foregoing, that absent the *Katzel* situation, section 42 of the Lanham Act clearly

applies only to merchandise bearing counterfeit or spurious trademarks that "copy or simulate" genuine trademarks. Therefore, plaintiffs' amended complaint fails to state a claim upon which relief may be granted under section 42. Accordingly, the claim under the Lanham Act must be dismissed.

MOTIONS FOR SUMMARY JUDGMENT

Having determined that there is subject matter jurisdiction over plaintiffs' claims under the Tariff Act, the Court will now address the cross motions for summary judgment. Summary judgment is an extraordinary remedy and should be granted only if the pleadings, depositions, answers to interrogatories, admissions, and affidavits conclusively demonstrate that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The Court finds that there are no genuine issues of material fact in dispute and this case is appropriate for summary disposition.

The primary issue for determination is whether the challenged Customs Service regulations are inconsistent with the Tariff Act and should be set aside. Section 526 (a) of the Tariff Act of 1930, 19 U.S.C. § 1526, provides that in the absence of the written consent of a trademark owner, it is unlawful to import into the United States "merchandise of foreign manufacture" that bears a trademark "owned by a citizen of, or by a corporation or association created or organized within the United States" properly registered in the Patent and Trademark Office and a copy of the certificate of registration filed with the Secretary of the Treasury in the manner provided by section 42 of the Lanham Act. Merchandise imported in violation of section 526 is subject to seizure and forfeiture.

The challenged regulations, adopted in 1972 and codified in 19 C.F.R. § 133.21(c)(1)-(3), were promulgated to implement 19 U.S.C. § 1526. Fed. Reg. 20677, *et seq.*

The Customs Service regulations provide that restrictions relating to trademarked imports do not apply to imported articles when:

(1) both the foreign and the U.S. trademark are owned by the same person or business entity;

(2) the foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control; and

(3) the articles of foreign manufacture bear a recorded trademark applied under authorization of the U.S. owner.

I.

The provisions of 19 U.S.C. § 1526 were first enacted into law as part of section 526 of the Tariff Act of 1922 and were re-enacted without change as part of the Tariff Act of 1930. In 1936, the Customs Regulations of 1931 promulgated pursuant to the Act, were amended to read as follows:

Art. 518. Prohibition of importation—

(a) Merchandise of foreign or domestic manufacture is prohibited importation when it bears a name or mark which copies or simulates a trade-mark or trade name entitled to the protection of the Trade-mark Act of 1905 or the Trade-mark Act of 1920, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.

(b) A name or mark (including a name or mark which is a genuine trade-mark or trade name in a foreign country) or an article of foreign manufacture identical with a trade-mark or trade name protected by the trade-mark laws of the United States, as well as a name or mark of an article of foreign

> or domestic manufacture counterfeiting such protected trade-mark or trade name, or so resembling such protected trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed for the purpose of these regulations to copy or simulate such protected trade-mark or trade name. *However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered under the trade-mark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation.* (Emphasis supplied.)
>
> *See* T.D. 48539, 70 Treas. Dec. 337.

This provision that a trademark on foreign-manufactured merchandise would not be deemed to copy or simulate a United States trademark if the foreign and domestic trademarks were owned by the same person, partnership, association, or corporation remained in effect from 1936 until 1972 when the regulations were amended.

The currently challenged regulations, embodied in 19 C.F.R. § 133.21(c)(1)-(3), resulted from a rulemaking proposed on December 19, 1970. Although all appropriate steps for agency rulemaking were followed, including the solicitation of public comment, plaintiffs herein did not participate in the proceeding. On October 3, 1972, the Customs Service published a Final Notice (37 Fed. Reg. 20677) adopting these regulations implementing section 526. The revisions were intended to clarify the regulations and to incorporate Customs Service policies and procedures not included in previous regulations.

The 1972 revisions were in response to the decision in the consolidated "perfume" cases, *United States v. Guer-*

lain, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *action dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959). The theory of the case rested on an antitrust doctrine. The trial court gave judgment for the Government and held that section 526 did not protect a United States company that was part of an international enterprise against importation of the enterprise's goods. On appeal to the United States Supreme Court, the Government asked that the judgment be vacated and the case remanded to the District Court so that the Government could move to dismiss its own case in order that legislation restricting section 526 could be promptly submitted. That was the genesis of a 1959 bill which was introduced to repeal section 526. The Congress did not enact that bill. Thereafter, the challenged regulations were promulgated permitting the unrestricted importation of trademarked products manufactured abroad where both the foreign and American trademark rights are owned by the same company or companies under common ownership.

Since 1951, the Customs Service has issued several letters describing its policy on foreign-manufactured goods bearing trademarks owned by Americans under section 526. The policy of the Customs Service has been consistent that if the United States trademark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone since the trademark owner has itself either introduced or authorized the introduction of the articles into commerce and thereafter may not unreasonably restrict the use of the product. *See* Customs Service Letters dated March 27, 1951, July 2, 1962, March 19, 1963, June 27, 1962, and December 11, 1968. If the foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced is deemed admissible by

the Customs Service. *See* Customs Service Letter dated November 25, 1968.

II.

Plaintiffs contend that the challenged regulations effectively nullify the protection for unauthorized trademark imports that Congress intended United States trademark owners to have. Plaintiffs claim that the statute, clear on its face, is controlling and, contrary to the position of defendants, there is no need to look to the legislative history to determine the intent of Congress. Plaintiffs also allege harm in that the regulations, as interpreted by the Customs Service, permit goods manufactured abroad bearing an authentic U.S. trademark to be imported and sold in the United States by third parties without authorization from the owner of the trademark. These diverted goods, plaintiffs aver, not only are frequently of a different quality, but also are marketed outside the authorized distribution channels responsible for promoting, supporting, and servicing the brand in the United States. Moreover, plaintiffs argue, diverted goods, often sold by discount houses throughout this country, result in revenue loss due to lost sales of products manufactured in this country. Because of the interpretation of these regulations, plaintiffs aver they have suffered a loss of prestige associated with the selection of distributors, diffusion of promotional efforts, impairment of good will, and the threat of an untimely end to the fashionable aura of the brand name.

It is further claimed that the regulations have resulted in agency inaction and in unlawful limitations on the enforcement of the statute. Plaintiffs insist that the continued introduction of diverted goods will destroy the very essence of the trademark and the property values it represents by permitting third parties who do not contribute to the advertising efforts and good will identified with the mark to obtain a "free ride" by reaping unfair benefits to themselves. Plaintiffs seek to block middle-

men from buying the diverted merchandise cheaply in Europe, importing it into this country, and then underselling the authorized dealers by as much as thirty percent.

In arguing for summary judgment in their favor, defendants contend that the challenged regulations are a correct application of the trademark statutes and that the legislative history demonstrates that it was not the intention of Congress to prohibit importation of diverted goods. Defendants, consistent with their interpretation of the statute, argue that once a trademark owner has authorized the foreign manufacturer to apply the trademark to goods, the trademark owner himself has introduced the articles into commerce and cannot thereafter unreasonably restrict the use of the product. The position of the intervenor-defendants is that the statute has been properly interpreted by the Customs Service and, further, the importing of diverted goods provides consumers with a legitimate alternative.

III.

The issue for decision, then, is whether the regulations promulgated by the Customs Service are invalid because they are inconsistent with the statute. As the Supreme Court reiterated in *Federal Election Commission v. Democratic Senatorial Campaign*, 454 U.S. 27, 39 (1981) (citing *Zenith Radio Corporation v. United States*, 437 U.S. 443, 450 (1978), and *Train v. National Resources Defense Council*, 421 U.S. 60, 75 (1975)), (1) the task for a court is not to interpret a statute as it thinks best, but rather the narrower inquiry into whether the agency's construction is "sufficiently reasonable" to be accepted by the reviewing court; and (2) in order to satisfy this standard, it is not necessary for a court to find that the agency's construction is the only reasonable one or even the reading the court would have reached if the question had initially arisen in a judicial proceeding.

The pivotal question is whether the construction by the Customs Service, as embodied in the challenged regulations, is sufficiently reasonable. This Court finds that the challenged regulations reflect the Customs Service's long-standing and consistent interpretation of section 526, which interpretation is fully consistent with the intent of Congress in enacting the legislation. This is amply demonstrated by the legislative history of the statute as well as judicial interpretation.

Previous court decisions have construed the statutory language of the Tariff Act to prohibit only the entry of merchandise which copies or simulates registered trademarks and not as a bar to genuine articles. *See Appolinaris Company v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886); *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916). These decisions were followed by *Katzel*, *supra*, and *Aldridge*, *supra*, where plaintiffs who held trademark rights conveyed from foreign companies sought to exclude from entry genuine products manufactured in the foreign country and bearing the trademarks. As noted above, the Supreme Court held in *Katzel* that a foreign manufacturer, having sold his business and trademark to a purchaser in this country, could not subsequently come to this country and use his old trademark in competition with that purchaser.

Neither *Aldridge* nor *Katzel* involved the situation in which one and the same party, owning trademark rights in the United States and abroad, authorized the application of the trademark on foreign-made goods and then sought to enjoin importation of those goods which bore the genuine trademark. This latter situation was involved in *United States v. Guerlain, Inc.*, *supra* at pages 10-11 [45a-46a], which formed the basis of the Customs Service regulations which plaintiffs now challenge.

In addition to judicial decisions construing the statutory language as not barring genuine articles, a pattern

of legislative acquiescence has indicated acceptance by the Congress of the Customs Service's interpretation of section 526 by failing to amend that section when legislation closely related to the provision was enacted. In 1978, in connection with the Customs Procedural Reform and Simplification Act of 1978, Pub. L. 94-410, 92 Stat. 903, the House Ways and Means Committee specifically recognized that section 526 "has been consistently intrepreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owner to produce and sell abroad goods bearing the recorded trademark." H. Rep. No. 621, 95th Cong., 1st Sess. 2 7(1977). Yet, Congress took no action for the purpose of protecting owners of the United States trademarks from importations bearing their own trademarks in such circumstances.

When an agency's interpretation and application of a particular statute are known to Congress, and Congress either amends the statute without affecting that administrative practice or refuses to act at all, the administrative interpretation of the law is presumed to be correct and consistent with Congressional intent. *Haig v. Agee*, 453 U.S. 280, 297-98 (1981). The construction of a statute by those charged with its execution should be followed unless there are compelling indications that it is wrong, especially when Congress has refused to alter the administrative construction. *Red Lion Broadcasting Co. v. Federal Communications Commission*, 395 U.S. 367, 381 (1969). In the instant case, Congress is well aware of the Custom Service's policy of permitting importation of diverted goods since at least 1944. It was clearly so informed when it enacted the Lanham Act in 1946 and again when it considered amendments to the Customs laws in 1954. And in 1978, in connection with the Customs Reform and Simplification Act, Congress spe-

cifically noted the practice and yet chose not to change it while amending other parts of section 526. Under the circumstances, Congress must be deemed to have approved the interpretation of and practice under section 526. *See Bob Jones University v. United States*, 461 U.S. 574 (1983); *Merrill, Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353 (1982); *Zenith Radio Corporation v. United States*, 437 U.S. 443, 450-9 (1978).

Moreover, the policy of the Customs Service of excluding from protection foreign-produced merchandise bearing a genuine trademark has been long-standing and consistent. When an agency charged with administering a statute has long adhered to a particular interpretation of its terms, that agency interpretation is entitled to "considerable weight." *United States v. National Association of Securities Dealers*, 422 U.S. 694, 719 (1975); *Accord, Federal Election Commission v. Democratic Senatorial Campaign Committee*, 454 U.S. 27 (1981); *Federal Trade Commission v. Mandel Brothers, Inc.*, 359 U.S. 385 (1959). It is clear from the existing regulations, that the Customs Service, as the agency charged with the administration of the laws pertaining to entry of imports, has chosen to protect the owners of registered and recorded trademarks against imports of goods bearing the genuine trademark only in those instances in which the owners have not authorized the application of the trademarks abroad either directly or through other parties under their control. To the contrary, in those instances in which owners have authorized the application of the trademarks abroad, the Customs Service has not accorded protection. The Customs Service interpretation of the statute, as demonstrated through its policies, is long-standing and consistent.

The intervenor-defendant 47th Street Photo presents an additional argument to preclude summary judgment contending that there are genuine issues of material fact in dispute. This argument has been considered but is

deemed to be without merit. The Court finds that although there are tangential issues in dispute, they are not genuine issues of material fact touching on the issues to be decided in this case.

The construction of section 526 of the Tariff Act by the Customs Service, as embodied in the challenged regulations, is sufficiently reasonable. This construction is supported by the legislative history, judicial decisions, legislative acquiescence, and the long-standing consistent policy of the Customs Service. The regulations clearly implement the limited purpose for which section 526 was enacted and are consistent with and effectuate the intent of Congress to permit entry of trademarked goods not involving the *Katzel* situation.

For the foregoing reasons and it appearing to the Court that the pleadings, depositions, answers to interrogatories, admissions, and affidavits conclusively demonstrate that there is no genuine issue as to any material fact and that the defendants are entitled to judgment as a matter of law, the plaintiffs' motion for summary judgment must be denied, and the cross motions of the federal defendants and intervenor-defendant K-Mart must be granted. An Order consistent with this Memorandum Opinion will be entered this date.

/s/ Norma Holloway Johnson
NORMA HOLLOWAY JOHNSON
United States District Judge

DATED: December 5, 1984

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

Civil Action No. 84-0390

COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*,
Plaintiffs,

v.

THE UNITED STATES OF AMERICA, *et al.*,
Defendants,

and

47TH STREET PHOTO, K-MART CORPORATION,
Intervenor-Defendants.

[Filed Dec. 5, 1984]

ORDER

Upon consideration of the motion of intervenor-defendant 47th Street Photo to dismiss, plaintiffs' motion for summary judgment, the cross motion of federal defendants for summary judgment, the cross motion of intervenor-defendant K-Mart Corporation for summary judgment, the memoranda submitted in support of and in opposition to the motions, the entire record herein, the argument of counsel, and consistent with the Memorandum Opinion of even date, it is this 5th day of December, 1984,

ORDERED

1. That the motion of the intervenor-defendant 47th Street Photo to dismiss for lack of subject matter jurisdiction be, and hereby is, denied;

2. That the motion of the intervenor-defendant 47th Street Photo to dismiss for failure to state a claim under section 42 of the Lanham Act be, and hereby is, granted;

3. That plaintiffs' claim under section 42 of the Lanham Act be, and they hereby are, dismissed for failure to state a claim upon which relief may be granted;

4. That the motion of the plaintiffs for summary judgment be, and hereby is, denied;

5. That the motion of the federal defendants for summary judgment be, and hereby is, granted;

6. That the motion of the intervenor-defendant K-Mart Corporation for summary judgment be, and hereby is, granted;

7. That judgment be, and hereby is, entered for defendants on the merits of plaintiffs' claim under section 526 of the Tariff Act.

/s/ Norma Holloway Johnson
NORMA HOLLOWAY JOHNSON
United States District Judge